FINANCIAL TIMES

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WORLD NEWS

Moscow and Tokyo hail outcome of Siberia summit

Russia and Japan ended a ground-breaking summit in Siberia with a pledge to sign a peace treaty by 2000 – an accord which could end a century of war and mistrust between the two. Russian president Boris Yeltsin hailed the move as a break-through and officials on both sides described the summit as historic. Page 3

German pensions complaints
The German government yesterday faced a backlash from industry and its own political supporters after raising employees' and employers' state pension contributions to a record high. Page 3

Irish president-elect's hopes
Belfast-born law professor Mary McAleese, who won last week's election to succeed Mary Robinson as Irish head of state, said she hoped Ulster Unionist leaders would attend her inauguration. N Ireland politics, Page 8

Afghan drugs purge
Afghanistan's Taliban rulers said they sent armed men to destroy heroin laboratories hidden along the border with Pakistan. The UN Drug Control Program estimates 96 per cent of Afghan opium is grown in Taliban zones.

Vaclav Havel ill
Vaclav Havel was readmitted to hospital suffering from pneumonia. The 61-year-old Czech president, who underwent surgery for lung cancer last year, had left hospital on Thursday. Page 3

Aegean leaders meet
Greek prime minister Costas Simitis and his Turkish counterpart Mesut Yilmaz are to meet in Crete today amid continued tension between the Aegean neighbours. Page 3; Observer, Page 17

Rig workers evacuated
US company Unocal Thailand took almost 700 workers to safety from gas drilling rigs in the Gulf of Thailand as a tropical storm approached.

Campaigners contest verdict
Supporters of Louise Woodward gathered outside the US embassy in London protesting against the alleged unfairness of the English teenager's US murder conviction. Tomorrow judge Hiller Zobel will consider defence motions to throw out the verdict, reduce the charge or order a new trial.

Rocket launch aborted
Brazil's first space rocket had to be destroyed soon after launch because one of its motors failed.

Best for business
European Union company executives have voted London Europe's best city for business for the eighth year running, according to the European Cities Monitor 1997. Paris came second and Frankfurt third. Page 8

Immigrants reach Italy
A ship carrying about 800 mostly Kurdish illegal immigrants was escorted into port in southern Italy. Police said it was one of the biggest such groups to arrive in Italy on a single ship.

Grenade attack on tourists
Three tourists from Britain, Australia and South Africa were wounded in a grenade attack on a camp site in Uganda.

Marlene's mementoes
An auction of actress Marlene Dietrich's personal items fetched $659,023, twice the amount expected, at Sotheby's Los Angeles.

Kenyan and Swiss win NY race
Kenya's John Kagwe won the New York marathon despite running the last few miles with a loose shoe lace. Switzerland's Franziska Rochat-Moser won the women's race.

BUSINESS NEWS

Elf Aquitaine faces up to a flood of foreign shareholders

Elf Aquitaine, France's largest industrial company, now has about 50 per cent of its share capital in foreign hands, in a striking illustration of French capitalism's changing structure. But the prospect of majority foreign ownership of such a national figurehead may create controversy in a country where Anglo Saxon-style management is still viewed with suspicion. Page 19

The European Bank for Reconstruction and Development says in a new report that eastern Europe and the former Soviet Union are set to experience their first year of pan-regional economic growth since the collapse of communism. Page 2

Barclays will consider selling parts of the equities and corporate advisory businesses of BZW if Swiss-American investment bank CSFB fails to make a satisfactory bid for the whole by the end of today, London time. Page 19

European consumers face higher charges for electrical products under waste management and recycling proposals being considered by the European Commission. Page 18

Brazil's exchange rate policy since the turmoil in global financial markets faces a crucial test on Wednesday, when São Paulo state tries to privatise electricity company CPFL. Page 19; Brazilian volatility, Page 25

The UK's Takeover Panel has asked the European Commission to drop its proposal for a law regulating takeovers in the European Union, after advice that it breaches EU law. Page 8

Haitai, South Korean confectionery producer, has joined the growing list of the nation's conglomerates filing for bankruptcy protection amid worries that large retail group New Core may soon follow. Page 19

Tobacco manufacturers have accused the UK government of attempting to bypass parliament by agreeing to an European Union directive banning almost all forms of tobacco advertising and promotion. Page 8

Amvescap, the $191bn independent fund management group which is based in Atlanta but domiciled and listed in the UK, is campaigning for a full listing in New York as well as London in order to increase liquidity in its shares. Page 19

US retail investors, far from being deterred by last week's share price fluctuations, are enthusiastic about the market's prospects said a survey by InvestmentNews. Page 6

Hong Kong is to review its techniques in defending its currency to minimise the impact on its economy, said financial secretary Donald Tsang. Page 5

Australia may come to a halt tomorrow for the annual A$2.2m (US$1.54m) Melbourne Cup, but its racehorse breeders are running on strongly, with prices for thoroughbreds rocketing and the promise of lucrative new markets opening. Page 6

MEPC, the UK property company, is expected to announce it is selling most of its small properties portfolio to GE Capital for about £300m – just weeks after announcing the sale of its Australian and US businesses. Page 20

Chivers Hartley, UK preserves group, has won its first order from Japanese retailer Jusco for a range of specially developed private label jams. Page 8

Truckers' strike action threatens to undermine business confidence

Roadblocks set up in France

By Robert Graham in Paris

French truck drivers began setting up roadblocks across the country yesterday, plunging Lionel Jospin's Socialist-led government into its first serious industrial relations challenge.

The blockades began from early morning. By nightfall they were operating in key areas near Bordeaux and Lyon under tha control of militant truckers.

The Jospin government showed no inclination to establish "safe corridors" for haulage transit, as requested by France's main trading partners.

The blockades began after a confused weekend of negotiations which saw the largest employers' group walk out of talks on Saturday but a smaller grouping sign an outline deal with four unions early yesterday.

Truck movement today across French frontiers, as well as through ports including Calais, is expected to be blocked, marooning many international freight carriers.

The truckers' action threatens to be more disruptive than the two-week nationwide blockage a year ago, and risks undermining business confidence at a crucial moment of France's economic recovery. Employers, rattled by the government's promise to introduce a 35-hour week, will watch to see if Mr Jospin sides with the unions.

A member of the CFDT, the main truckers' union, said: "We have learned the lessons of 1996 and we know exactly where the sensitive points are."

Stefan Levesque, spokesman for the FNTR, which represents the larger hauliers, said the unions had been preparing the blockade for weeks. "The leaders have either no wish to hold the militants back – or things have gone too far to stop them," he said.

Truck owners and drivers were divided among themselves, creating confusion in a fast-moving situation. The FNTR, which accounts for almost half the haulage companies in France, walked out of the negotiations on Saturday in no mood to compromise. "All along we have felt the unions have wanted a show-down," said Mr Levesque.

Unostra, which represents the small trucking companies, broke ranks and signed an outline deal negotiated with four truckers' unions early yesterday with government intervention.

This envisaged an immediate

Continued on Page 18

Saudis struggle to pay for $7.5bn airliner order, claim bankers

By Robert Corzine and Michael Skapinker in London

Saudi Arabia is struggling to pay for a politically sensitive $7.5bn aircraft order from the US, according to bankers in Riyadh.

The order for 61 Boeing and McDonnell Douglas aircraft was made two years ago after pressure from Washington, which saw the purchase as Saudi repayment for US military action during the Gulf war.

Bill Clinton, the president, telephoned King Fahd at the time, urging him to favour the US companies over European rivals, Airbus Industrie.

Deliveries were due to begin this year, but Boeing said no aircraft had yet been handed over to Saudia, the Saudi airline.

King Fahd: urged by Bill Clinton to give order to US companies

Boeing, which took over McDonnell Douglas earlier this year, refused to comment on whether the Saudis were having difficulty paying for the aircraft. "If there were difficulties, they would be kept between us and the airline customer," the company said.

But one Riyadh-based banker said: "They are struggling to put together a financing package."

Bankers said several schemes had been put forward to solve the problem. One involved the Public Investment Fund, which received dividends from the government's shareholding in Sabic, Saudi's petrochemical group. Under the proposal, funds would be channelled to Saudia to enable it to buy the aircraft. The government could then privatise the airline to "recapture" its capital, said one banker.

Other bankers described such a scheme as "off the wall" because it would take at least "three to five years to whip the airline into shape" for privatisation.

Western diplomats said morale at the airline was low. Its finances had been strained in part because many of Saudi Arabia's 6,000 princes insisted on travelling free of charge.

"The Ministry of Finance will have to help, and pretty soon, because they have their backs against the wall," said one banker.

Another plan would be for the government to repay debts owed to Saudi commercial banks, which could lend the funds to the airline.

The lack of a decision is evidence of "just how tight the government's finances are", according to a Riyadh-based diplomat. He said that relatively high oil prices had probably left the Saudis "a couple of billion dollars ahead" of earlier budget estimates. Nonetheless, he added that the Saudis were still finding it difficult to come up with the money on time.

The order is for 23 Boeing 777-200s and five 747-400s. The Saudis also ordered four McDonnell Douglas MD-11 freighters and 29 MD-90s. The future of the McDonnell Douglas models is in doubt following the Boeing takeover, with Boeing expected to announce today whether it intends to continue manufacturing the two aircraft.

In the short term, a delay in deliveries to Saudia would not hurt Boeing as it struggles to keep up with airline demand. The company last month suspended production of its 747 and 737 models for a month and announced a $1.6bn write-down to take account of its production difficulties.

But given the size of the order, long-term Saudi difficulties in paying for the aircraft would be a significant blow to Boeing.

An Indonesian policeman stands guard in Jakarta yesterday outside Bank Harapan Santosa, one of 16 ailing banks closed by the government over the weekend. The closures were the first step in a reform programme backed by the International Monetary Fund and other lenders in return for more than $37bn in assistance as a defence against currency attacks. Page 18 Picture: Reuters

Washington considers the military options over Iraq

By Gerard Baker in Washington

Pressure mounted in the US yesterday for military action against Iraq in response to Baghdad's decision to expel American representatives from a UN team of weapons inspectors.

France and Russia cautioned the Clinton administration against military strikes, and the Cairo-based Arab League said its member states were also opposed to a military solution.

But the White House accused the Iraqi government of "blatant disregard" for the United Nations in interfering with the experts overseeing the elimination of Iraq's weapons of mass destruction. Barry Toiv, deputy White House press secretary, said the UN Security Council was weighing its options in response to the action.

In a rare display of political unity, the entire congressional leadership said it would back any military action by the US to force Iraq to abandon its opposition to the US inspectors.

"We should take whatever steps are necessary to enforce the rules," said Newt Gingrich, Republican Speaker of the House of Representatives. Asked if that included military action, he replied: "Absolutely."

Trent Lott, the Senate majority leader, condemned the latest moves by Iraq's president, Saddam Hussein. "I suspect that something will have to be done relatively soon," he said.

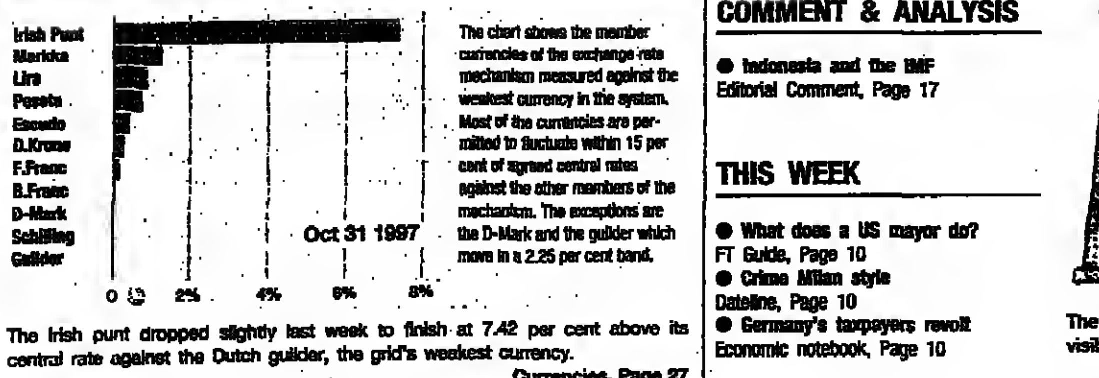
The Democratic leaders in the Senate and the House also agreed action might be necessary.

Bill Richardson, US ambassador to the UN, stressed that while all options were being considered, the dispute was principally about the authority of the United Nations. "This is not a fight between the United States and Iraq," he said. "This is Iraq confronting the United Nations and Security Council violations."

In Baghdad, officials stood by their pronouncement that US inspectors would not be allowed to participate in the weapons examination set to resume today. Last week Iraq ordered 10 American members to leave the country by Wednesday. "On Monday

Continued on Page 18

Markets



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a 2.25 per cent band.

The Irish punt dropped slightly last week to finish at 7.42 per cent above its central rate against the Dutch guilder, the grid's weakest currency.

Currencies, Page 27

London · Leeds · Paris · Frankfurt · Stockholm · Madrid · New York
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NEWS: EUROPE

European Bank for Reconstruction and Development says fillip provided by improving performance in Russia

East Europe economies set to turn corner

By Kevin Done, East Europe Correspondent

East Europe and the former Soviet Union are set to experience their first year of pan-regional economic growth since the collapse of communism.

After seven years of continuous decline in gross domestic product, growth this year is forecast to reach 1.7 per cent, with economic contraction finally ending in Russia. The rate of growth is forecast to accelerate to 3.5 per cent in 1998.

The growth performance is uneven but 11 of 26 economies across the region are now growing at rates of 4 per cent or more.

The turnaround is largely due to the improving performance of Russia, which "is likely to register in 1997 its first year of mildly positive growth," according to the 1997 Transition Report published today by the European Bank for Reconstruction and Development.

Growth in east Europe (excluding the former Soviet Union) has slowed for the third year in a row, however, with Albania, Romania and Bulgaria experiencing setbacks.

The EBRD forecasts higher growth in east Europe in 1998 at 4 per ceot on a weighted average compared with 3.1 per cent this year, and says that there are good prospects for positive growth in the former Soviet Union as a whole next year, with a more solid recovery in Russia.

It forecasts GDP growth in Russia of 3 per cent next year compared with 1 per cent in 1997.

Inflation has continued to fall in most countries in the region, with countries having reduced the rate of inflation to below 10 per cent a year and 18 to less than 20 per cent.

But the macroeconomic position remains fragile in many countries, with budget deficits growing in many parts of the former Soviet Union, and current account deficits rising across the region.

External accounts have deteriorated sharply during the past two years, with growth in many of the advanced countries of east Europe currently being driven by domestic demand and especially by private consumption.

Almost half of all the transition economies have current account deficits exceeding 7 per cent of GDP, financed by growth in inflows of foreign private capital.

Net private capital flowa into the region have surged in the past two years and could exceed $55bn this year, reflecting growing confidence.

The EBRD warns, however, of the dangers of injudicious lending to the region, which still suffers from fragile markets and poor information. Lending margins to the region have been squeezed, but according to the bank recent low yields oo transition economy debt are partly explained by excess liquidity in the international capital markets rather than just by falling perceptions of risk.

"In some cases the yields may look unrealistically low in relation to the risks involved," says the report.

The inflows "can bring their own problems. There is a danger of overheating, of excessive real exchange rate appreciation and of volatility", says the report. A Czech currency crisis this year indicated the risks.

Foreign direct investment has continued to flow into the region at a rapid pace, with Poland becoming the main recipient last year, replacing Hungary, which had led the field since 1989.

The pace of investment has accelerated again this year, with Poland and Russia each set to attract a quarter of the estimated total foreign direct investment of $18bn for the region. Next year, regional foreign direct investment is forecast to rise to more than $20bn.

However, international competitiveness in manufacturing declined in several countries in 1996 and 1997, driven hy a combination of real wage increases outstripping gains in productivity and continuing appreciation in real exchange rates.

According to the EBRD study, the average increase in unit labour costs in D-Mark terms in the advanced countries of east Europe last year was 9 per cent compared with a 1 per cent fall in Germany.

In hard currency terms wages remain low compared with west Europe, however, and the report claims that there is little evidence that so far the increase in labour costs has damaged exports in general.

It can have an impact on the confidence of international investors, however. The rapid rise in real wages against a background of stagnating industrial productivity played a significant role in the Czech currency crisis earlier this year, says the EBRD.

The 1997 Transition Report. Available from EBRD Publications Desk, 1 Exchange Square, London, EC2A 2EH, UK. Tel: 44-171-338-9090. Fax: 44-171-338-6102. Website: http://www.ebrd.com

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Transition still painful for those in new markets

Many people's living standards have risen but corruption and poverty need to be tackled, particularly in former Soviet Union

Corruption is more pervasive in the former communist economies of east Europe, in particular the former Soviet Union, than in any other region of the world, according to the EBRD's Transition Report.

Poverty has also risen "dramatically" during the difficult transformation of command economies to a market system, despite the fact that living standards have improved for many people.

Income inequality has "increased substantially throughout the region", while poverty rates have climbed steeply in the former Soviet Union as a result of falling incomes, dislocation of employment and reduced or badly directed social transfers, says the study.

Income inequality in Russia as well as in some other countries of the Commonwealth of Independent States (the former Soviet Union minus the Baltic states) and in Bulgaria had "shot up dramatically from moderate levels to levels typical of the more unequal developing countries such as Thailand and Mexico".

Along with rising poverty have come increases in many of the transition countries "in health problems and social maladies, including dramatic increases in deaths from heart disease, higher suicide rates, and the spread of infectious diseases".

> 'Life expectancy, most notably in Russia, has dropped sharply'

Life expectancy in a number of countries, most notably in Russia, has dropped sharply, apparently due in part to higher stress and deterioration in the provision of public health services. In Russia average life expectancy for men in 1995 at 58.3 years was three years below India and a "stunning" six years lower than at the start of transition.

The EBRD says that the problem of corruption merits special attention.

Entrepreneurs operating in the CIS countries face both high levels of corruption and unpredictable government policies.

In a recent global survey of more than 3,600 entrepreneurs in 69 countries, local businessmen were asked whether it was common in their line of business to have to make some "irregular additional payments to order to get things done".

Within 10 countries in the former Soviet Union 65 per cent of respondents said this was frequently, mostly or always true.

The regional average for the CIS was 15 percentage points higher than in the next highest region, sub-Saharan Africa and 24 per cent higher than in Latin America.

Corruption has also become highly predictable in the CIS both in terms of payment levels and the delivery of agreed services, which is in stark contrast, says the EBRD report, with the lack of predictability and credibility in government policies in the a region.

Entrepreneurs in the region have to deal much more frequently with unexpected changes in rules, laws and policies which materially affect their businesses than in any other region of the world.

When entrepreneurs were asked to rank the most significant obstacles to doing business in their countries, the CIS was the only region in which policy instability and corruption ranked together in the top three, says the report.

"Managers in the CIS appear to rely upon corruption – transactions, which they regard as highly predictable and credible – as a means of hedging against the risks associated with the instability of government policy, much as they did under central planning," according to the study.

The EBRD says that if economies in the region are to launch themselves on a path of rapid, sustained growth, they must enhance the effectiveness of institutions that support the market "in particular by reducing the legacy of bureaucratic interference and corruption that undermines investment and competition."

A new phase of transition is beginning according to the bank.

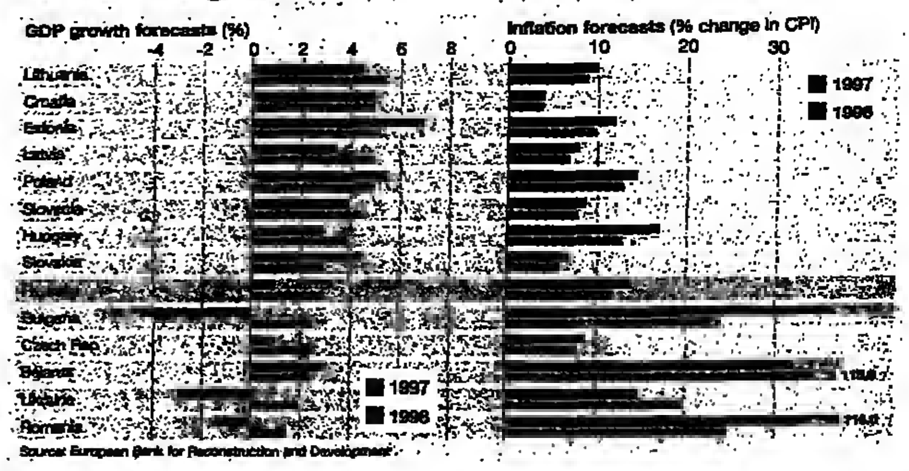
Countries in the region had established many of the basic elements of a market economy but "there are serious risks ahead".

There are great disparities in the transition to a market economy across the region according to the report. Bulgaria, Romania, Azerbaijan and Georgia have made impressive advances in the past year, but there has been "back-tracking on reform" in Belarus, Slovakia and Uzbekistan, while reforms in Ukraine had been at a standstill.

With growth returning to the region the central challenge of transition for all of the former communist countries is to build "the governance and institutions which will underpin a well-functioning market economy... good governance and institutions will deliver effective and competitive markets, which to turn will deliver restructuring and sustained growth," says the report.

Kevin Done

On track for growth



Source: European Bank for Reconstruction and Development

Russia and Japan in peace pledge

By Chrystia Freeland in Moscow

The leaders of Russia and Japan vowed to sign a peace treaty by 2000, following a ground-breaking summit meeting in Siberia which could end a century of war and mistrust between the two Asian giants.

"This is a major breakthrough in relations between Russia and Japan," Boris Yeltsin, the Russian president, said after two days of talks with Ryutaro Hashimoto, the Japanese prime minister, near the Siberian city of Krasnoyarsk.

"The president and I have agreed to make maximum efforts to conclude a peace treaty by the year 2000," Mr Hashimoto said at a summit officials on both sides described as historic.

A territorial dispute over islands known as the Southern Kuriles in Russia and the Northern Territories in Japan has prevented the two countries from formally ending their second world war hostilities.

The conflict over the islands, which were seized by Soviet troops in the final days of the war, has cast a broader pall over Russo-Japanese co-operation in everything ranging from business to politics.

Although the two leaders offered no details on how they proposed to settle the vexed issue of sovereignty over the islands, their pledge to reach a deal on the territorial issue signalled an improved relationship in a number of other spheres.

Mr Hashimoto, who concluded the weekend by hugging and kissing Mr Yeltsin, said his administration would support Russia's entry into the Asia Pacific Economic Co-operation forum (Apec).

The two leaders also pledged increased co-operation on a wide range of trade, energy, transport and military issues, including visits between chiefs of general staff and possible joint army exercises for humanitarian missions.

Mr Yeltsin said the summit signalled Russia's effort to develop closer ties with its Asian neighbours.

Japanese officials said that a treaty with Russia would profoundly affect the balance of power in Asia.

But diplomatic footwork will be required over the next two years.

Boris Nemtsov, first deputy prime minister and the cabinet member in charge of relations with Japan, strongly played down the possibility of a Russian surrender of the disputed islands, which are a rallying point for nationalist feeling in both Russia and Japan.

Germany's pension policy faces backlash

By Ralph Atkins in Bonn

The German government yesterday faced a fierce backlash from industry and its own political supporters after lifting state pension contributions by employees and employers to a record high.

Hans Olaf Henkel, president of the German industry association, told Welt am Sonntag newspaper that the government's pension policy was a "complete disaster". His comments followed the surprise announcement late last week that pension contributions would rise from 20.3 per cent of gross wages to 21 per cent next year.

The force of the protest highlights not only fear about the impact on labour costs and jobs but widespread frustration in industry at Bonn's failure to implement economic reforms. Guido Westerwelle, general secretary of the Free Democratic party, junior member of the centre-right Bonn coalition, said the rise was "catastrophic news" for German competitiveness. He called for renewed talks on pension reforms.

But the government has run into difficulties even with relatively modest changes to Germany's pay-as-you-go pension scheme. The Bundestag, or lower house of parliament, agreed on Friday government proposals which would use funds raised from a one percentage point increase in VAT to help relieve overburdened pension funds. But the proposal is likely to be blocked in the Bundesrat, the second chamber, which is controlled by the opposition Social Democratic party.

The SPD opposes government plans to curb the level of state pensions and has proposed its own pension reform scheme. Norbert Blüm, federal labour minister, yesterday said "simple party political tactics" were at play. But the strength of the weekend's criticism could help forge cross-party support for controls on low-paid jobs, paying less than DM610 ($346) a month, which are not liable to social insurance contributions.

Greek and Turkish leaders to discuss Aegean tensions

By Kerin Hope in Agia Pelagia, Crete

Costas Simitis and Mesut Yilmaz, the Greek and Turkish prime ministers, are to meet for the first time today in Crete on the margins of a Balkan summit aimed at promoting good relations in the region.

Tensions in the Aegean have increased in recent weeks, marked by mock-dogfights between Greek and Turkish military aircraft and a near-collision between Greek and Turkish warships.

According to a senior Greek official, "no spectacular breakthrough" is expected from the talks. Mr Simitis will try to reactivate July's Madrid declaration in which he and President Suleyman Demirel of Turkey pledged to seek peaceful ways of resolving bilateral disputes.

"It would be a step in the right direction if there was a friendly and constructive exchange of views," the official said. Greece still insists that Turkey agree to international arbitration for disputes over sovereignty in the Aegean before it lifts a veto on EU financial aid to Ankara, he added.

Turkey wants open-ended talks on disputes over air, sea and seabed rights that have plagued relations between the two Nato allies since the 1970s.

Any improvement in Greek-Turkish relations before EU accession talks with Cyprus next April would give a boost both to hopes of reuniting the island and to Turkey's troubled relationship with the EU.

Mr Simitis yesterday emphasised Greek determination to promote regional stability and economic co-operation as he welcomed the Balkan leaders arriving on Crete. The meeting also brings together representatives from Albania, Bulgaria, Macedonia, Romania and Serbia.

A Greek anti-terrorist policeman stands in front of a Turkish flag at Heraklion airport on eve of Balkan summit in Crete AP

INTERNATIONAL NEWS DIGEST

Probe takes heat off individuals

The US Senate committee investigating alleged campaign finance abuses in last year's elections is unlikely to recommend that specific charges be brought against individuals, its chairman said yesterday.

"There will be some referrals made to the Justice Department when appropriate," said Senator Fred Thompson. "It will not be specific recommendations," he added. Any decision on criminal charges would be made by the Justice Department, the senator added.

On Friday Senator Thompson called an unexpected end to his committee's hearings on the subject, after he failed to persuade the Senate leadership to agree to an extension of the committee's deadline of the end of this year to complete its inquiry. The investigation began as a potentially explosive inquiry that threatened to cause embarrassment to President Bill Clinton and Al Gore, the vice-president, as well as leading Republicans over their zealous fundraising last year. But it soon descended into partisan squabbling. *Gerard Baker, Washington*

■ SWISS SOLIDARITY PRIZE

Offer of aid to prevent poverty

In an attempt to repair its tarnished international image, Switzerland plans to offer an annual SFr1m ($680m) prize for organisations which help solve and prevent poverty and violence around the world.

The "Solidarity Prize" is the highlight of the Swiss government's proposed Solidarity Foundation, which will be financed by profits from SFr7bn of the country's gold reserves. The fund, which still has to win the backing of the Swiss electorate, will concentrate on four areas in Switzerland and abroad: preventing the growth of poverty and violence; helping children; rebuilding destroyed social structures; and reconciling tensions and conflicts. It will support existing relief agency projects and campaigns where there is an obvious gap.

Switzerland announced the proposed foundation in March after mounting criticism of its wartime role financing Nazi Germany. *William Hall, Zurich*

■ CZECH PRESIDENT

Havel back in hospital

Vaclav Havel, the Czech president, has been taken to hospital after developing pneumonia.

Last week Mr Havel, 61, spent a night in hospital with a virus infection and then cancelled this week's planned visit to the UK. The former dissident suffered pneumonia when he was imprisoned under the communist regime and he had a recurrence when half his lung was removed in an operation to remove a cancer last December. Yesterday doctors said he had been taken to hospital after his condition worsened and he became feverish.

In January Mr Havel is due to be re-elected for a second five-year term. *Robert Anderson, Prague*

■ BANGLADESH TENSIONS

BNP boycotts parliament

The main opposition Bangladesh Nationalist party refused to attend the opening of the new session of parliament yesterday and called for a general strike in Dhaka, the capital, tomorrow. The party is protesting against what it alleges is government persecution of its members.

Tomorrow's day of action coincides with the opening of a two-day meeting in Dhaka of the Paris Club of donors who will decide on the level of next year's commitments to Bangladesh.

Donor countries, which between them last year pledged just under $2bn in aid to Bangladesh, have been concerned about signs of increasing political tension in the country. The meeting precedes a two-day investors' conference organised to encourage foreign investment in Bangladesh. *Kasra Naji, Dhaka*

■ VENEZUELAN POLITICS

Congressmen side with Fermín

Acción Democrática (AD), Venezuela's largest political party, lost seven congressmen late last week after they joined forces with rebel presidential candidate Claudio Fermín, who was ousted from the party last month for criticising the party leadership as unrepresentative.

Because of the defections, AD is now thought to be less able to oppose controversial government legislation.

Their departure is a further blow to AD after the departure of Mr Fermín and could shift the balance of power in the lower house, where a handful of key reform bills await approval. For the past three weeks AD has been filibustering an electoral reform law, which would help guarantee a more transparent electoral process before next year's presidential election.

According to some political analysts, Mr Fermín could take with him between one-quarter and one-third of AD's voter base. Mr Fermín, former mayor of Caracas, is second in the opinion polls to Irene Sáez, a former Miss Universe who is now a mayor. *Raymond Colitt, Caracas*

NEWS: INDONESIA REFORMS

Move on banks gets a mixed reception

The Indonesian government's closure of 16 private banks at the weekeod was criticised in some quarters as a token gesture, but was praised in others as a decision of unexpected firmness.

Economists pointed out that the banks were relatively small and might oot have survived the financial crisis that has swept across Indonesia since last summer.

At the same time the government has confounded sceptics by putting together a reform programme which appears to curtail market distortions that had been maintained largely for reasons connected with political patronage.

Ministers announced last Friday that the government would phase out support for e national car, assembled by a company controlled by the son of President Suharto.

A network of trading monopolies that funded close associates of the president and his family is to be deregulated.

Import tariffs that protected powerful industries are being cut.

Reform programme appears to curtail market distortions

But the vague wording of the reform package left some wondering whether the government had exaggerated its scale to please forelgn donors, or played down the painful steps it was taking for fear of appearing to cave in to foreign pressure.

Some financial analysts said that investors would have welcomed a clearer sign from the government that it intended to police the financial sector more rigorously.

Mr Suharto has faeed numerous riots during his 30-year tenure of office, and some of the worst were caused by studants who accused him of selling out to foreign investors.

Indonesia has announced annual deregulation packages in recent years, bnt many steps were undermined by exemptions and contradictory legislation.

But never before in his rule has Mr Suharto faced such a downturn both in economic terms and in terms of public confidence. Whila economists talk of a slowdown in growth, many Indonesians talk of collapse and recession.

Indonesia was swept along in the rout on the south-east Asian markets last summer, but opted to float the rupiah in August rather than waste its $20bn of currency reserves on defending it. To curb a run on the currency, it raised interest rates and transferred state pension funds from commercial banks to the central bank.

This caused such hardship for commercial banks and affiliated enterprises, however, that the government felt forced to announce reforms in early September, with many of the pledges repeated under the agreement with the IMF.

It delayed $13bn in infrastructure projects to cut budget expenditure and curb the widening curreot account deficit.

But the moves failed to persuade investors, who had been scared off by a continuing slump in south-east Asia and by reports that Indonesia's banks and enterprises were much deeper in debt than had earlier been reported.

On October 8 Mr Suharto gave in to a lobby of reformist ministers and advisers and called in the IMF. Indonesia indicated it did not need much funding but was looking for a stamp of approval.

However, the IMF, under fire in Washington for bailing out reckless governments and investora, required more than the government had thus far beeo prepared to give – bank liquidations, improved monitoring of commercial banks, and an end to trade monopolies and tax benefits for well-connected enterprises.

Negotiators presumed that the political pain this required could only be softened by a large aid package of the kind that took shape last Friday and Saturday.

Sander Thoenes

Widjojo credited for persuading Suharto to agree to IMF terms

Magic arts of Jakarta's 'witch-doctor'

By their own admission, negotiators of the International Monetary Fund, World Bank and Asian Development Bank played their "highest-stakes poker game ever" when they set tough conditions for a huge aid package to Indonesia.

They were lucky to be playing with Widjojo Nitisastro. No mean poker player himself, the chief negotiator for the Indonesian government nevertheless shares the IMF's outlook on the world as much as any Indonesian official.

Mr Widjojo takes much of the credit for persuading President Suharto to call in the IMF and agree to most of its conditions. "He is a witch-doctor," one Indonesian consultant said in awe.

Mr Widjojo turned 70 in September, just as his country faced one of its most eevere crises since Mr Suharto came to power in 1967. He and a group of economists, nicknamed technocrats for their disdain of politics, have helped Indonesia to weather them all.

Pushed to the sidelines in recent years, they returned when the rupiah started sliding in August and dragged the Jakarta stock exchange down with it.

"When times are good, Widjojo and the economists are put in an obscure corner and President Suharto speaks to the cronies," said Mohammad Sadli, a former minister who was close to Mr Widjojo. "The technocrat group is at its best in times of crisis. Suharto listens to them more for the time being and be orders the other ministers to shut up."

Educated at Berkeley University in the US, Mr Widjojo has been the godfather of the so-called Berkeley mafia, a team of seven economists who pulled Indonesia out of a recession in 1967 with a mixture of tough monetary policy and deregulation to encourage foreign investment. The group's influence waned when oil revenues started flowing in, but the collapse of the state oil company in 1975 persuaded Mr Suharto to invite them back.

They seemed to be on their way out again in the early 1980s when the oil price suddenly dropped, forcing Mr Suharto to ask them how to make up for the loss of revenue. In action in 1992, when the country faced a sudden outflow of funds, they seemed to have lost out for good in 1993 to Mr Suharto's children and a few powerful protégés, notably Yusuf Habibie, minister for science and technology.

Widjojonomics, as many Indonesians called it, gave way to Habibienomics, a combination of nationalism, protectionism and lavish funding for high technology projects.

> 'The technocrat group is at its best in times of crisis'

When Mr Widjojo nominally retired he was appointed adviser to the president, along with Ali Wardhana, a Berkeley colleague. The central bank, the state audit board and the co-ordinating ministry for finance and development are still held by members of the same group.

"He has never really left office," said Ali Alatas, Indonesia's foreign minister. "He has been held in such high esteem, not just by his peers but also by the president.

"He is always asked for advice. The economists still hold sway in the cabinet."

Some doubt that Mr Widjojo will keep a say in the country's economic management now that the aid package has come through. "He was brought in as a bit of a showpony," one diplomat said.

"Ha is well known internationally. But if he is so good, why wasn't he around when economic policy was bad?"

Sander Thoenes

Japan pledges support for IMF accord

Tha Japanese government pledged its support at the weekend for the financial package agreed by the International Monetary Fund and the Indonesian government.

"Japan is ready to provide financial support for Indonesia's foreign reserves," said Hiroshi Mitsuzuka, finance minister.

He has instructed Eisuke Sakakibara, the depnty finance minister who was recently in Indonesia, to enter direct talks with Jakarta concerning the details of Japanese assistance.

Japan has been reluctant to take a leading role in regional financial support, preferring to act under the umbrella of international organisations, snch as the IMF. The government has been cautious in its response to calls from certain Asian governments for a regional fund to provide assistance in the event of currency turmoil, such as that affecting Thailand and Indonesia.

However, Japan has a strong interest in ensuring stability in south-east Asian economies. Japanese banks are heavy lenders in the region, while trading companies and engineering companies have invested heavily in regional infrastructure projects. Japanese electronics manufacturers and car makers have huge business interests in the region.

Indonesia is a particularly important market for car companies such as Toyota and Honda, and has been a critical part of their strategies for expansion in south-east Asia. Japanese car makers have invested heavily in the region, and have been hurt by the national car programme launched by President Suharto, which gives preferential tax treatment to a joint-venture car manufacturer in which President Suharto's son has been involved.

Indonesian compliance with World Trade Organisation rules, a condition put forward by the IMF, would be of huge significance to Japanese car makers.

Toyota and Honda both launched small "Asian" cars which are manufactured in Thailand but aimed at the regional market.

Sales of these cars, which had already been adversely affected by the national car project, were further damaged by Thailand's currency turmoil.

The Japanese economy is also dependent on south-east Asia as a huge export market for prodncts ranging from electronic parts to construction equipment and engineering plants.

Michiyo Nakamoto

Neighbour's troubles provide an opportunity for Singapore

City-state's aid offer shows the importance it attaches to Indonesia. **James Kynge** reports

Politicians trying to put a brave face on south-east Asia's financial crisis have often noted that the Chinese word for "crisis" incorporates a character which also means "opportunity".

As Indonesia signed up for a a package of international aid last week, it was clear the situation yielded several opportunities for Singapore.

The sheer size of Singapore's offer to Jakarta – US$5bn (£3bn) in balance of payments support, and a possible further US$5bn to help prop up the rupiah – defines the importance of Indonesia to the small but wealthy city-state facing it across the Strait of Malacca.

With a population of nearly 200m, Indonesia is south-east Asia's biggest potential market.

Its political clout within the Association of South East Asian Nations, the region's top diplomatic club, is paramount.

It is also a military power which Singaporean officials know could one day be a threat.

"Most people were surprised by the size of the offer. But if you consider the possible political and economic dividends for Singapore, it is probably a very shrewd move," said one senior diplomat in Singapore.

Several large Singaporean companies, many of which are at least partly owned by the state, bave recently embarked on ventures within Indonesia or are in negotiations to do so. Observers said that tha aid pledge would help open doors in a country where contacts – especially those with President Suharto and his family – are important to business success.

The offer of an aid package by Singapore prime minister Goh Chok Tong (left) to President Suharto of Indonesia (right) may have been an act of self-preservation

A Singaporean consortium comprising the Port of Singapore Authority (PSA) and Sembawang Maritime, a company with links to the government, is planning a joint venture to develop and manage a port 70km west of Jakarta.

The venture is part of PSA'e strategy to diversify into overseas markets as costs at Singapore's port – the world's busiest – rise to levels at which competitiveness is threatened.

Arcasia Land, a subsidiary of the government-linked Jurong Town Corporation, announced last week that total investment in a 240-hectare high technology park in West Java would come to US$225m.

Work started on the park last week. Keppel Land, part of the government-linked Keppel Corp, is negotiating to take a significant stake in an Indonesian property company, executives said.

The forces behind such outward investment are fundamental.

The Singapore dollar has appreciated considerably against the rupiah since early July, making Indonesian assets relatively cheap. Indonesia's incipient financial crisis may also throw some companies on to the market at knock-down prices.

To some investors, the long-term prospects in Indonesia are superior to those of, say, Malaysia.

While Malaysia'e manufacturing competitiveness is being challenged by rising wage costs and a chronic labour shortage, Indonesia is likely to remain more cost-competitive for several years to come.

But although such calculations may have figured in the mind of Goh Chok Tong, Singapore's prime minister, when he pledged the aid package to President Suharto this month, an even more powerful urge may have been self-preservation.

"If Indonesia went badly wrong, Singapore would be a major loser," said Hugh Peyman, managing director of Dresdner Kleinwort Benson in Singapore.

"Indonesia provides the flow which makes the entrepot economy work."

Many of the ethnic Chinese tycoons who control Indonesia's biggest corporations have for years regarded Singapore, the only south-east Aslan country with an ethnic Chinese majority, as s safe haven.

They have poured savings into Singapore'a *"big four"* banks, become a dominant force in the local market for luxury apartments, and bought up troubled Singaporean companies.

Indonesian freight helps keep Singapore's port busy, its collectors are the main buyers in a blossoming art market, and its tourists frequent the many designer clothes, perfume and accessory outlets in Singapore's vast shopping malls. There is also evidence that the booming private banking businesses of foreign and Singaporean banks in the city-state have lent heavily to Indonesians in US dollars.

Exposure to these loans is now considered extremely risky because of the rupiah's sharp decline against the US dollar.

Banking analysts said that any wave of defaults on such loans could hit Singapore's financial sector hard.

This fall-out would be particularly unwelcome because it might undermine Singapore's cherished ambition to build on its success as south-east Asia's financial centre, eventually eclipsing Hong Kong.

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HK to review defence of its currency

By John Ridding in Hong Kong

Hong Kong will review its techniques in defending its currency to minimise the impact on the territory'a economy. Donald Tsang, financial secretary, said yesterday.

"I hope that some general lessons will come out of this exercise, to ensure that if there is a second round of attack, we will not only be able to deal with the speculators, we'll make sure the ramifications for Hong Kong as a whole will be less," Mr Tsang said.

Witbout giving precise details, he said he and his colleagues "will be reviewing very thoroughly, in terms of technology, in terms of techniques" tha methods used to protect the Hong Kong dollar.

The government has faced criticism from the investment and manufacturing community after a rise in interest rates to defend the currency peg to the US dollar and a sharp fall on the stock market.

However, a government spokesman said protection of the peg remained the priority of the administration, and Mr Tsang said he was confident the government had "the right formula".

The sharp rise in local interest rates, with interbank rates soaring to more than 200 per cent at one point, and prime landing rates increasing from 8.75 per cent to 9.5 per cent, prompted fears about tbe impact on the property market and the economy.

The blue-chip Hang Seng sbare index plunged, and oow stands more than 30 per cent below its August peak.

"While the government was the big winner in keeping the peg, which we support, it did not anticipate the huge drop in the Hang Seng index and the relative impact on the property market," said James Tien, chairman of the General Chamber of Commerce. "In defending the peg they have to take an overall view."

Hong Kong's willingness to accept damage to stock and property markets is seen as a measure of its mettla in defending the 14-year peg to the US dollar. While high interest rates and associated economic problems prompted criticism from some quarters, the authorities have also drawn fire from the opposite direction.

Christopher Wood, emerging markets strategist at Peregrine Secnrities, believes that by injecting liquidity into the money markets tbe Hong Kong Monetary Authority reduced its credibility in the battla against speculators.

Donald Tsang: 'we'll make sure ramifications for Hong Kong as a whole will be less'

"This had the effect of hoth compromising tbe integrity of the exchange rate mechanism and inviting suspicion that the authorities were anxious to prevent asset prices from falling."

Government officials say the upheaval in the financial markets is expected to subside after speculators targeted the Hong Kong dollar and shorted the stock market recently. "There is nothing much on tha radar screen as far as the Hong Kong dollar is concerned," said Rafael Hui, secretary for financial services.

Asian currency crisis clips airlines' wings

As warnings go, it was hlunt and to the point. What should have been a bumper year, said Cathay Pacific in a letter to staff, has become "the worst situation for passenger revenues in decades".

Regional rivals of the Hong Kong carrier, however, may take only small comfort from their competitor's cry of pain. The currency crisis in the region could hring longer-term benefits, but for now it has compounded a aeries of problems from smog to disappearing Japanese tourists.

"Things are going pretty badly for many of the Asia-Pacific carriers," said Wendy Wong, airlines analyst at Merrill Lynch in Hong Kong. "We are only three months into the crisis. I think the pain will be more apparent later on."

Part of the problem facing regional carriers – and perhaps in time their suppliers – is that the downturn has several causes. The initial tronble started in Japan, where economic gloom and a weakaning yen bave deterred tourists from travel.

Cathay has been worst hit. A surge last year, ahead of Hong Kong'a handover to China, has been followed by donhle-digit declines in recent months. Thai Airways, Maleysian Airlines Systems (MAS) and others have also felt the impact.

"Japan accounts for more than one-third of intra-Asian traffic," said Viktor Shvets, head of regional aviation research at Deutsche Morgan Grenfell. "Whether you look at Hong Kong, Singapore, Bangkok or Kuala Lumpur, arrivals are either flat or down."

The problem has been compounded by a slowdown in traffic from Korea, a strong source of passenger growth in recent years.

Yet the devalnations have a silver lining. "Hong Kong'a fixed exchange rate means it is getting priced out of the market, but Thailand, Malaysia and the Philippines can expect a great deal more foreigners flying in to take advantage of bargains," said Jim Eckes, managing director of Indoswiss, the aviation consultancy.

However, such benefits are obscured in the short term by the haze and smog blanketing parts of the region, prompting almost 900 flight cancellations in Malaysia in September. They are also offset by slowing growth and by cost and dabt considerations.

"Anything from 30 to 50 per cent of airline expenses are in hard currency – jet fual, route operating expenses, parking and landing fees," said Mr Shvets. "Many carriers, such as Malaysian Airlines Systems and Thai Airways, are carrying a substantial debt burden, and they also have heavy aircraft acquisition plans." After the devaluation of regional currencies, those purchases are about 20 to 35 per cent more expensive.

While tourists will he encouraged by the lure of cheap destinations, slowing economic growth will hit intra-regional traffic and business travel. "Instead of travelling husiness or first class, passengers might go back to aconomy and this has a buge impact on yields," said Mr Eckes.

Taken together, the various factors are expected to hit profits – at least in the sbort tarm. Salomon Brothers expects the earnings of MAS to fall sharply in 1998.

Aircraft at Hong Kong airport: fall-out from the regional currency turmoil has helped to hit carriers' revenues AP

Restatement of the company's foreign currency liabilities, it added, could lead to annual write-offs of 200m ringgit ($59m). Downgrades and cantions are emerging for many otber airlines, including Cathay Pacific and Thai Airways.

One result of the downturn is likely to be intensified competition between carriers. While they are resisting tariff cuts, many are introducing new schemes, such as Cathay's offer of a free ticket to Hong Kong for long-haul flights booked in some destinations.

"It is urgent that we fill seats, and pricing incentives, in whatever form, have to be a weapon," said one executive from a rival carrier.

Regional competition bas already been increased by the rise of new carriers, from Asiana in Korea to EVA in Taiwan and AirAsia in Malaysia. Some fledgling carriers have found the going tough. GrandAir of the Philippines bad two aircraft seized in Hong Kong in July after a dispute with creditors over lease obligations.

The carrier described the prohlem as an administrative oversight, hut it raised questions about pressures resulting from lease contracts in US dollars at a time of regional devaluation.

For new arrivals, as for the established players, a big question is whether they now curh their amhitions. AirAsia said in August it was deferring a decision on the purchase of two wide-bodied aircraft.

So far, the big carriers are pressing ahead witb fleet renewals. Thai Airways, MAS, SIA and Cathay Pacific have all signalled they will proceed as planned. A continued slump, bowever, could clip their wings.

"If we see these sorts of passenger numbers for the next six to nine months, there will be pressures to defer deliveries," said Mr Shvets.

John Ridding

North Korea inches towards economic reform

"Wa have constructed our country by ourselves and we are still self-reliant," was the hardline message delivered hy a senior North Korean official at a recent international economic conference in Hong Kong.

But reality is telling a different story as isolated North Korea, crippled by industrial stagnation and famine, appears to be inching toward economic reforms as it opens up to foreign investment.

Claims of the North's self-reliance are belied by its dependence on foreign food aid and energy supplies for survival. Pyongyang is now seeking capital and technology from abroad to revive its moribund economy.

In what amounts to a key concession, the North recently said it would establish two prodnction centres at the port cities of Nampo and Wonsan to supplement a free-trade zone in the Rajin-Sonbong area bordering China and Russia.

While the Rajin-Sonbong zone is isolated and surrounded by barbed-wire fences to restrict entry of North Koreans, the new zones, specialising in production of consumer product exports by foreign companies, will be located near population centres.

Creation of the new zones amounts to an acknowledgement by Pyongyang that the Rajin-Sonbong venture, establisbed in 1991, has failed to attract much foreign investment despite claims that $2.9bn, mostly from Chinese investors, has been committed to develop the area as a transport hub for north-east Asia.

Foreign investors prefer existing port facilities close to the North'a main cities instead of the Rajin-Sonbong region, which has few paved roads and lacks other vital infrastructure to support industry.

Some analysts think the decision to establish the new zones is an indication that Kim Jong-il, wbo formally assumed power last month as the North's leader, supports at least limited economic reforms.

Pyongyang is already using the Rajin-Sonbong zone as an incubator for market reforms. As many as 100 private stores are estimated to be operating in the zone, along with open-air markets to cater to the needs of foreign traders.

In the first sign of currency reform, it has reportedly cut the official exchange rate in the zone from 2.12 North Korean won to the US dollar to the black market rate of 200.

Official sponsorship of the duty-free zones has been accompanied hy the emergence of a primitive market economy among farmers as the North's food distribution system breaks down. Foreign visitors to the area around the capital have reported existence of farmers' markets for hungry citizens wbo harter goods for food, most provided hy small private agricultural plots sanctioned by the government.

Several open-air markets have also beeo established along the Chinese border, wbere North Koreans are engaged in unsupervised barter trade now that China is becoming an important source for food.

Growth of the black markets has been aided by growing movements of people as internal travel restrictions are eased.

These developments could be the first inklings of the same reform process that started in China in the late 1970s witb agricultural reforms, although North Korean officials adamantly deny that is their intention.

Nonetheless, South Korea appears ready to encourage reforms in the North. Although Seoul has previonsly tied economic co-operation to progress in political relations witb Pyongyang, there are suggestions it will separate the two issues, despite the North's continued refusal to negotiate with the South.

Seonl has recently approved a proposal hy the state-run Korea Land Corporation to build an industrial complex at Rajin-Sonbong, while it granted permission for five new joint venture projects in the North.

This is in addition to two light-water nuclear reactors that the South is helping build on the North's east coast in return for Pyongyang's promise to abandon its suspected nuclear weapons programme.

An aviation accord between the two Koreas will open the North's airspace to international flights from February, wbile Seoul and Pyongyang are discussing expansion of shippiog routes.

The pace of co-operation may quicken after the December 18 presidential election in South Korea, which could help melt frozen inter-Korean ties by bringing to power a more conciliatory leader than the incumbent, Kim Young-sam, who has adopted a hawkish stance on North Korea.

John Burton

US bulls unfazed by shares turmoil

By Tracy Corrigan in New York

US retail investors, far from being fazed hy last week's stock market correction, are enthusiastic about the market's prospects, according to a telephone snrvey by InvestmentNews, conducted during last week's sell-off.

According to the survey, if the market dropped another 10 per cent only 6 per cent of individual stock investors and mutual fund shareholders would sell, while 23 per cent would huy stocks. Sixty-aix per cent said they would stand firm.

The majority of the US stock market is owned by US retail investors, either in the form of individnel abares or through mntual funds, and their enthusiasm for the market is widely seen as having prompted the recovery in stock prices last week, after Monday'a aharp correction.

Many market analysts had feared that after a long bull market, a downturn could prompt panic-aelling by retail iovestors.

Asked about their current intentions, 78 per cent of investors said they had no plans to buy or sell. Only 2 per cent expressed any any desire to sell, while 19 per cent said the downturn provided a good buying opportunity. Only 4 per cent said they sold any boldings early last week, while 16 per cent said they bonght mntual funds or stocks.

Although 53 per cent of those polled said they believed the market to be overvalued. 77 per cent predict it will be higher by the end of the year.

The nationwide survey of 150 men and 150 women was condncted by Leo Shapiro and Associates of Chicago.

The survey's findings reinforce anecdotal evidence from US retail brokerages last week. For example Charles Schwab, the largest US discount broker, said that overnight huy orders outnumbered sell orders by three to one after Monday.

Chinese and US leaders overlook their differences, in the interests of a stable relationship

Jiang and Clinton agree to disagree on touchy subjects

By Tony Walker in New York and James Harding in Beijing

China'a President Jiang Zemin travelled to Harvard university at the weekend for a speech which US officials and his own advisers had cautioned him against making, because of concern about anti-China protests in a citadel of free expression.

But Harvard, with its long tradition of distinguished China scholarship, provided Mr Jiang with a useful platform to repeat his message that Beijing desires an enduring and multifaceted partnership with the US.

China's leader was also able to show a more human face than had been evident earlier in his visit, and even to risk joking about demonstrators who hava dogged his footsteps throughout his eight-day stay.

"Although I am already 71 years old, my ears still work very well, ao when I was delivering my speech, I did hear the sound from the loudspeakers outside. However, I believe the only approach for me is to speak even louder," he said.

But in the end it was not words but symbols which spoke louder about the achievements of the first summit visit to the US by a Chinese leader since the 1985 mission of the former president, Li Xiannian.

From Waikiki to Williamsburg, from Washington to Wall Street, from north-east academe to the glitz of Hollywood, Mr Jiang reached out to America with, it seems, modest success.

Commentators in both the US and China say the fact that tha summit occurred at all is a step forward; that relatively brisk exchanges on human rights and other contentious issues did not "poison the well" indicate a "maturing" of the relationship.

President Bill Clinton and Mr Jiang might not have reached headline-making agreemants, beyond progress on trade liberalisation and arms proliferation, but they appear to have begun to establish a foundation for a more predictable relationship.

Kenneth Lieberthal, professor of politics at the University of Michigan and adviser to the US government on China policy, said the visit went "pretty well", and Chinese and American leaders almost certainly understood each other better as a consequence.

"Jiang got a strong dose of American values and at the end evidently still felt strongly the US and China can have e constructive relationship," bs said. "The US feels that an emerging constructive strategic partnership will allow us to press China on issues of mutual interest, and that the relationship need not be hostage to domestic political pressures."

David Shambaugh, director of the Sigur centre for Asian Studies at George Washington University, said the Clinton-Jiang summit should yield more freqnent high-level contacts.

"Jiang will go home convinced that the US is not out to contain China strategically, divide it territorially, subvert it politically and frustrate its economic emergence," Mr Shambaugh added.

In China, assessments more or less mirrored those in the US. "The fact that both heads of state have agreed to work together into ths 21st century proves the visit was a success," said Shi Min, vice-chairman of the Chinese Association for Asia-Pacific Studies, a State Council, or cabinet, think tank.

"Of course, one cannot expect that tha two would reach agreement on every single issue. But both leaders realise they either work together to find common ground, or they quarrel all the way into next century over issues such as human rights, democracy and Tibet. For these are issues which will not be resolved in the abort term."

China was pleased with the clear-cut statement from Mr Clinton that the US remains committed to a "one China policy" and that it is up to Beijing and Taipei to resolve their differences peacefully.

"Beijing recognises that it is not practical for the US to stop arms sales to Taiwan in one single step... What China wanted was a clear statement that the US would not encourage moves in Taiwan towards independence," said Tao Wenzhao, deputy director of the Institute of American Studies in the Academy of Social Sciences.

US business appeared well satisfied with the Jiang visit, seeing it as an opportunity to press its case at a high level for improved access to China'a market, and to raise concerns about bureaucracy, corruption and risks to investment posed by a poor legal framework.

"The visit by Jiang Zemin was an action-forcing event for the two hureaucracies, and that was great," said Robert Kapp, head of the US-China Business Council, which represents US business in China.

But there was also scepticism. James Lilley, former US ambassador in China, says: "We haven't yet seen the fine print" on the proliferation agreement, and what "circuit breakers" might be in place if China violates undertakings not to export nuclear technology.

That observation perhaps sums up the fruits of the summit for both sides, each of which had an interest in promoting style over substance, and avoiding unpleasantness on divisive issues in the process.

Jiang and Clinton: both sides at the summit have an interest in avoiding unpleasantness AP

Sun and shuttle stallions boost Australian horse power

By Elizabeth Robinson in Sydney

While all of Australie stops tomorrow for the annual A$2.2m (U$1.5m) Melbourne Cup, racehorse breeders are enjoying the good times, with prices for thoroughbreds rocketing and the promise of new lucrative markets opening.

Although the economic crisis in south-east Asia has concerned some breeders who sell to the region, others say that it demonstrates to Asian punters that racehorses are as good a bet as more traditional investments.

Even before the crisis broke, the region was clamouring for Australian bloodstock. The first Asian Thoroughbred Braeders Conference is being held in February by Australia's industry association as a showpiece for the country's bloodstock as well as a forum to co-ordinate the push into Asia.

Average prices for Australian yearlings have grown nearly 130 per cent in 10 years to A$98,955 at the Easter sales organised by William Inglis, the leading bloodstock auctioneer with around 65 per cent of the market.

The reason, says Reg Inglis, managing director, is the improved hloodlines of Australian horses thanks to the arrival of "shuttle stallions". These stallions enjoy first-class travel in the northern hemisphere, servicing mares for six months and moving to the southern hemisphere for the next six.

Last year, almost 50 stallions did their rounds in Australia, including the legendary Danehill of the US, whose progeny can fetch prices of A$700,000.

While tha prices have soared, Australian horses are still on everage 30-50 per cent cheaper than thoroughbreds from the US and Europe, according to Mr Inglis, attracting Asian buyers.

He says that Asian interests account for nearly 30 per cent of Australian sales, compared with about 5 per cent eight years ago. Hong Kong and Japan are the biggest customers, but the industry is also seeing growth in India.

Magic Millions, another Australian enctioneer, now holds annual sales in Macao and Singepore. Brian Agnew, chairmen of Aushorse, the industry's co-ordinator, says Australian racehorses are now genetically equal to horses elsewhere but are priced more competitively because they are cheaper to raise.

Australia's climate means horses can be raised in paddocks, compared with the boxes used in colder northern climates, and shipping costs to Asia are also lower. He says that Australian horses are also more climatically suited to living in Asia than northern horses.

"Growth in horse trade to south-east Asia over the next 10 years will be explosive," he said. One of the themes of next year's conference is "China – the sleeping giant".

The Australian industry is confident that when the Chinese government wakes up to betting tax as an easy revenue source, demand for horses, including Australian stock, will soar.

However the domestic market remains the industry's backbone. One concerned voice was raised this week when Bart Cummings, a leading trainer, werned that rising prices were forcing Australian owners to seek quick returns from "precocious two-year-olds" in sprint races.

Not enough attention was being paid to tha longer process of preparing "stayers" for more arduous races such as Tuesday's two-mile course in Melbourne, he suggested.

But Australians remain confident of their home-grown talent, putting their money on the local Might and Power, favourite for the race.

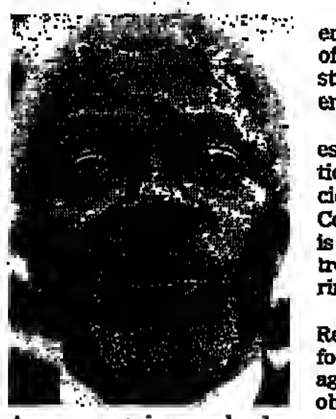
UN under fire from its auditors

By Michael Littlejohns at the United Nations

The United Nations systems have been severely criticised in a report from its own auditors, who found corruption, careless spending, alack management and disregard for rules in a year-long investigation of the far-flung bureaucracy.

The scathing report could provide new ammunition for political critics in Washington who question the UN's will to change. Discussion in the UN General Assembly on reforming the UN continue to make little progress, and congressional agreement to pay most of the US arrears of more than $1bn remains elusive.

A condition set by Congress for settling the debt is a sweeping UN overhaul which Kofi Annan, the secretary general, proposed last July. But the plan that is running into resistance, mainly from developing countries.



Annan: sweeping overhaul

Karl-Theodor Paschke, the UN inspector general, said his office, now nearing its third hirthday, had recovered or saved ten of millions of dollars through audits and stirred complacent managers.

However, few UN entities escape the auditors' sanction. Even that icon of efficiency and probity, the High Commissioner for Refugees, is faulted for "various control weaknesses and recurring problems".

At the separate Palestine Refugees Agency, auditors found thet somnolent management allowed a thief to obtain $355,000 in medical reimhursements through forged papers for "aick" members of his extended family.

UN peacekeepers number only 18,000 now, including the Angole force extended last week. An audit found bungling there: $980,000 lost to delayed, deficient or short supplies; $667,000 paid for stevedoring that was not a UN charge; a vendor overpaid $288,000; and an irrecoverable loss of $241,000 for bus hire.

The chief financial officer of the UN force in Cyprus was sacked after a greengrocery account lost $450,000 to frand. Relocating UN force headquarters in Guatemala proved a false economy: the monthly bill douhled and "renovations" cost another $250,000.

At the UN Environment Programme in Nairobi, auditors found e nest of high-priced consultants, top-heavy secretariats, weak spending controls and barely competent recruits. "Significant shortcomings... both human and financial" were uncovered at another Nairobi agency, Habitat, the centre for human settlements.

Pakistani problems mount

Government in crisis, manufacturing falling, rupee devalued – but an IMF loan deal is good news, reports Farhan Bokhari

Last month Pakistan provided international investors with one of their first pieces of good news for over a year, when it reached agreement with the IMF over a new loan agreement.

But since then, both investors and the country's government have found themselves etill bothered by fundamental economic problems, quite apart from the turmoil that has run rampant across Asian markets in recent days.

To make matters worse, the fortunes of Nawaz Sharif, the country's prime minister, last week tonched rock bottom, as his nine-month-old government faced a severe constitutional crisis. For the Sharif government little has gone to plan.

The loan package of $1.56bn from the IMF to help the country's balance of payments prohlem had helped the stock market reach 2,079 points, one of its highest levels in recent months.

The news in subsequent days, however, brought levels down by more than 10 per cent, to 1,828 points at close of trade on Friday, as implications sank in of the financial unrest elsewhere in Asia and the political troubles at home.

The turn of events has put an even greater spotlight on last month's decision to devalue the rupee by 8.7 per cent, a decision that analysts were describing as a gamble even before the latest setbacks.

A recent report by ABN Amro, the Dutch bank, best illustrated anxieties when it aaid: "The devaluation is more likely to stoke inflationary pressure or increase government expenditure and cause an increase in the fiscal deficit" – even if the strategy works and domestic investors are galvanised into action.

But Sartaj Aziz, finance minister, is still betting on good crops as the first sign to pull the economy out of its slumber: "We expect a good cotton crop, to help our economy recover. At the same time, our reform programme will begum to show results."

More than half of Pakistan's $8.7bn exports last year were made up of cotton products. A good harvest would give cheaper raw cotton to the hundreds of textila factories, the country's largest industrial sector.

But the country's structural problems ara a far greater challenge. During the last financial year (July-June), large-scale manufacturing contracted for tha first time ever, and the trade deficit soared to a record $3.37bn.

An improvement during the three months to September, when the deficit fell by 18 per cent from the same period a year before, failed to enthuse the markets.

Many analysts are also worried about the ontlook for taxes. The government won headlines with big cuts this year, but critics argue that it looks increasingly unlikely that the country will gather in the present financial year's projected tax take of Rps324bn ($7.4bn).

The tax revenues are the most important guarantee for the success of the fund programme. At least three previous IMF programmes have collapsed in the past few years, triggered by shortfalls in taxes and a rise in the budget deficit, rising above agreed limits.

Confidence has suffered another blow with the recent constitutional turmoil that followed Mr Sharif'a refusal last week to eppoint five judges to the supreme court. The court wanted more judges in order to apeed legal proceedings, but some observers noted that such a atep would also strengthen the judiciary'a position against the executive.

For a country where, in almost two decades, no civilian regime has survived its full term of office, the prospect of another government losing ita grip just nine months after coming to power is a haunting one.

Mr

In response to the mounting controversy over the issue, Pakistan last week came close to a standstill, as bureaucrats across the country waited for the issue to be resolved in an atmosphere of increasing tension.

For Mr Aziz, the one consolation is that the situation now is "infinitely better" than a year ago, when political and economic turmoil, accompanied by suspension of a previous IMF agreement, finally led to the downfall of Benazir Bhutto'a government. He is encouraged hy the fund agreement: "The positive factors today outweigh the negative ones."

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Party leader accused of declaring war on pro-Europe wing

Opposition chief in new row

By George Parker, Political Correspondent

William Hague, the opposition Conservative party leader, was yesterday accused by a senior colleague of "declaring war" on the party's pro-European wing, amid signs that the conflict could erupt as early as next week.

David Curry, who resigned as agriculture spokesman at the weekend, claimed Mr Hague had deliberately provoked conflict within the party by ruling out British membership of the euro in the next parliament.

The flashpoint could come on November 12, when Mr Hague plans to force to oppose a House of Commons bill that ratifies the European Union's Amsterdam Treaty.

Pro-European Conservative MPs support much of the treaty, which updates the Maastricht agreement of 1991, and includes a reduction of the national veto and an extension of the powers of the European parliament.

"I hope we don't take a bull-headed attitude to the Amsterdam Treaty," said Ian Taylor, who resigned as junior Northern Ireland spokesman last week. "These are the sort of issues which could trigger further problems within the party."

The Conservative party descended into open conflict over the weekend with Kenneth Clarke, the former chancellor, and Michael Heseltine, the former deputy prime minister, also speaking out openly against Mr Hague. The Tory leadership yesterday showed signs of increasing impatience with the rebels.

"They have been given a free vote on the single currency, and that is a freedom they should respect," said one of Mr Hague's aides.

But in a thinly veiled threat, he added: "They should not use that freedom as an outlet for attacking the leadership."

Mr Hague's colleagues said it was "likely" that the party would use a three-line whip [the highest level of coercion for a Commons vote] for the passage of the European Communities Amendment bill, which will enact the Amsterdam Treaty signed by Tony Blair, the prime minister, in June.

There would be a rebellion if Mr Hague put down an amendment backing his demand that the government hold a referendum on the treaty, which includes British participation in the social chapter and a reduction in national veto.

Mr Hague's closest lieutenants were out in force in the broadcast studios yesterday, arguing that the decision to rule out British membership of the Euro during this parliament and the next was clear and pragmatic.

But elsewhere the Tory party was involved in acrimonious factional skirmishes not seen since the passage of the Maastricht treaty in 1993.

Meanwhile, Labour and the Liberal Democrats will discuss a joint approach to the single currency when the cross-party cabinet committee discusses Europe at its meeting tomorrow.

Testing the intent behind tough N Ireland positions

Protagonists may be more flexible than they have indicated so far

An endgame may just be emerging in Northern Ireland's political negotiations, which enter a new phase this week.

Six weeks since the real talking began, ministers have been relieved that some progress has been made. Offset against that, however, is the refusal of pro-British unionist delegates even to acknowledge the presence of Sinn Féin – the Irish Republican Army's political wing – around the table.

So far, the parties have been playing to the gallery on issues of principle, setting out their positions in the round.

Over the next few days, the business committee is expected to recommend a timetable for discussion of details of a new Northern Irish assembly and cross-border institutions between the north and the Irish Republic. This will test the intent of the protagonists.

The portents are not entirely gloomy. While using every opportunity to call for a united Ireland, Gerry Adams, Sinn Féin president, has given recent hints that he would be prepared to accept a solution that falls short of that.

David Trimble, leader of the Ulster Unionist party, has made clear he will not countenance any cross-border authority with executive powers. Yet his keynote speech to his party conference a week ago showed flexibility. Mr Trimble took head on attacks from hardliners within his own party.

He made clear the union [between Britain and Northern Ireland] was not for renegotiation, and warned the Dublin government to keep out of the affairs of the north.

But he added: "We need nationalists to tell us, in realistic terms, what would meet their need. And we will try sympathetically to meet them." This appears to leave room for manoeuvre.

Mr Trimble is playing hard ball on "strand two" – the cross-border element. On "strand one" – devolution for Northern Ireland – he is enthusiastic. The powers of a Northern Irish assembly are likely to be somewhere between those of Scotland, with its own future government, and Wales, which will have little more than a regional council.

Press Association

Fine balance: Gerry Adams (left) and David Trimble have each hinted at compromise

Mr Trimble does appear to have accepted the notion of power-sharing, checks and balances for minority Catholics. This could take the form of weighted committee chairmanships, guaranteed seats on an executive council, or a triumvirate leadership.

Where he bridles is at the prospect of giving the Dublin government a say, and effective right of veto, through a joint authority, for example on education, health or religious affairs. Some areas that affect both sides of the border, such as environment, tourism and transport, would be less contentious.

One suggestion Mr Trimble has made is a Council of the British Isles, some kind of forum taking in all the separate nations of the UK, as well as the Irish Republic. The consequences for the blurring of sovereignty would be potentially as difficult for Dublin as for Belfast.

So far the potential for compromise of Irish ministers has not been tested. The Dublin government appears slowly to be accepting that articles two and three of its constitution, which aspire to a united Ireland, would have to be dropped as part of a deal.

A referendum on the issue, which would be obligatory, could take place simultaneously with a vote on a final outcome.

In addition, for a cross-border authority to work, Dublin would also have to accept unionist input into what until now has been its own domestic affairs.

As for Mr Adams, he would have to be heavily compensated for any watering down of strand two, and for a de facto recognition of the existence of Northern Ireland as a geographical entity. He still calls it a "statelet".

This would have to involve some participation in a triumvirate – presumably under Mr Trimble's chairmanship – or similar body, as well as in a cross-border arrangement. It is a very fine balance to strike.

Ministers are not naive enough to believe that any of this is immediately achievable. They have until next May to unruffle feathers, and persuade Mr Trimble to reply to points made by Mr Adams in conversation, or even to look at him. Mr Adams still talks in cliches about British occupation.

There is an element of fatalism in all this. If Mr Trimble wants to walk out, there will be no shortage of reasons for him to cite.

If the IRA deems progress unsatisfactory, it is capable at any moment of returning to violence. But it is still there.

John Kampfner

UK NEWS DIGEST

London 'best for business'

European Union company executives have voted London Europe's best city for business for the eighth year running, according to a survey published yesterday.

The European Cities Monitor 1997, published by international property consultant Healey & Baker, showed the UK capital won the accolade by a considerable margin in the survey of senior executives from more than 500 leading European companies. Paris was second and Frankfurt third.

■ INTEREST RATES

Bank has case for further rise

The Bank of England's monetary policy committee meets again this week, with some analysts arguing that the UK central bank still has a case to increase interest rates, in spite of the recent weakness of the London stock market.

Barclays Bank, in its quarterly economic review published today, says there is still upward pressure on interest rates.

This echoes the views of the futures markets. On Friday, the short sterling future was pointing to one more rate rise of 0.25 percentage points by the end of the year.

Any decision to raise rates would come at an unusually sensitive time. The FTSE 100 index fell 127.9 points last week, with individual trading days showing sharp falls.

Chris Wright, Barclays economics director, said: "Unless UK share prices fall substantially further, the balance of argument still points to a small further rise in interest rates over the next three months." *Daniel Green*

■ AGRICULTURE REFORM

Farmers question Europe strategy

UK farmers' leaders have "very severe doubts" about European Commission plans to reform the Common Agricultural Policy, it emerged yesterday. The National Farmers Union said the strategy, part of the Commission's Agenda 2000 proposals, ignores likely World Trade Organisation constraints. It said this would make it "extremely difficult for the European Union to avoid further, possibly far-reaching, changes to the CAP early in the next decade". New WTO talks on agricultural trade are due to start in 1999.

The view was expressed in written evidence submitted to the Agriculture select committee, which starts taking oral evidence tomorrow on the Agenda 2000 proposals. It is likely to find support in the agriculture ministry, which is thought to favour tougher reforms than those proposed.

The NFU is deeply critical that Agenda 2000 lacks "any proper consideration of WTO issues". *Maggie Urry*

■ MINIMUM WAGE

Union urges $7.33 national level

Unison, the public service union, has urged the Low Pay Commission to recommend a national minimum wage at an hourly rate of £4.42 ($7.33) – more than the current pay of 43 per cent of the union's 1.3m members.

Unison is calling for: an hourly rate on wage slips; the minimum wage to be an implied term of an employee's contract and enforceable through industrial tribunals; conciliation and arbitration to be available, possibly as a function of the Low Pay Commission; a simple means of requesting that a claim be investigated through local authorities and public agencies; and an appropriate inspectorate with powers of enforcement and action through the county courts. *Andrew Bolger*

■ DEFENCE

Call over Bosnia mission costs

The Treasury has started a renewed assault on the defence budget, demanding the military should bear the full £200-250m cost of the UK peacekeeping mission in Bosnia.

George Robertson, defence secretary, is fiercely resisting the move, which comes shortly after the Treasury took £168m ($279m) from the Ministry of Defence to avoid a winter crisis in the health service.

The Bosnia mission is currently funded from the government's central contingency reserve, but Alastair Darling, Treasury chief secretary, argues that the Army presence should now be treated as a normal expense, similar to the commitment to Northern Ireland.

An MoD spokesman said yesterday that if the department had to fund Bosnian operations it would seek an "adjustment" to the defence budget. *George Parker*

■ TOBACCO ADVERTISING

Manufacturers attack government

The Tobacco Manufacturers' Association yesterday accused the government of attempting in effect to bypass parliament by agreeing to a European Union directive banning almost all forms of tobacco advertising and promotion.

EU officials will tomorrow consider a "compromise" directive, put forward by Luxembourg, which meets many of the UK's objections to the directive. As a result, the tobacco industry said it expected the UK to back the directive at the health ministers' council meeting next month.

UK support could help the directive go through on qualified majority voting. David Swan, the TMA's chief executive, said yesterday that Tony Blair, the prime minister, had promised to consider all the options available before making a decision on anti-smoking measures and had promised a white paper on the issue. "Deliberations at the EU health council could effectively make this process irrelevant," he said. *Nicholas Timmins*

Japanese jam deal set to boost preserves group

By Maggie Urry

Chivers Hartley, the preserves group, has won its first order from Jusco, the Japanese retailer, for a range of private label jams developed especially for it.

The deal was hailed as a success by Food From Britain, the government-backed group which promotes exports of food and drink from the UK and which opened an office in Japan two years ago.

The first order, for 2,900 cases of strawberry and blueberry jam and orange marmalade, will put the British jam on the shelves of 300 supermarkets. It will compete with the leading local brand, Blue Flag, as a mass-market rather than a luxury, niche brand.

Andrew Stokes, marketing manager at Chivers, said the order from Jusco, Japan's third largest food retailer, was the culmination of extensive work on meeting Japanese tastes and preferences. It was placed almost two years to the day since Mr Stokes first visited Japan on a trade mission led by Food From Britain.

He said: "In dealing with Japanese retailers, persistence and patience are the watchwords." After initial contact on the trade mission, Jusco executives had visited Chivers' factory near Cambridge and had been thorough and detailed in their demands. As a result, Chivers altered the recipes to include more fruit and less sugar, developed the blueberry flavour and switched to smaller jars, as Japanese shoppers make more frequent trips to buy food, use jam more sparingly than British consumers do, and have less storage space.

Chivers developed a new brand, "Cambridgeshire", for the range, which will be exclusive to Jusco. The label carries a sepia picture of King's College Cambridge, playing on Japanese respect for British seats of learning.

With the UK jams market static or slightly declining, exports are one area of growth for the company. Exports are at present less than 15 per cent of Chivers' turnover, with France, Germany and Holland its largest markets. Mr Stokes said the deal with Jusco would far exceed its existing exports to Japan, and he saw potential for the country to become Chivers' fourth largest export market.

Brussels urged to end takeover law proposals

By Robert Rice, Legal Correspondent

The UK's Takeover Panel has called on the European Commission to drop its proposal for a law to regulate takeovers in the European Union following advice from a leading lawyer that the proposal is unlawful under EU law.

A legal opinion by David Vaughan QC, commissioned by the panel, says the draft directive on takeover bids fails to satisfy the principle of subsidiarity enshrined in the protocol to the recently signed Amsterdam Treaty.

Alistair Defriez, the panel's director-general, has written to Mario Monti, the single market commissioner, saying that the proposal should either be withdrawn altogether or replaced by a recommendation or voluntary code. Mr Monti has yet to respond.

The UK has opposed all attempts by Brussels to introduce a European regime for regulating takeovers on the basis that it would threaten the UK's non-statutory system for regulating bids.

Although the current draft directive is based on the City Code on Takeovers and Mergers and would not require the UK to change its system, the panel says incorporating it in UK legislation would result in nuisance litigation designed to frustrate or kill off bids.

The directive is scheduled to come into force next April, but the panel believes the European Commission may be having second thoughts.

Four months after it was returned from the European parliament with several proposed amendments for safeguarding workers' rights in takeovers, the draft has still not been revised by the Commission.

Council of Ministers' working group meetings last week were postponed and are not expected to take place before December.

The panel believes the commission faces a dilemma because while some of the MEP's amendments are acceptable, others would prove too politically controversial for the directive to become law.

The panel says Mr Monti's recently published action plan for completing the single market programme fails to mention the takeover directive.

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THIS WEEK

A little help from Broadway

DATELINE

Milan: the city's hard-pressed councillors are turning to New York for advice, writes **Paul Betts**

Dario Fo has few fans in Palazzo Marino, Milan's imposing city hall facing the famous La Scala opera house. The city's right-wing council was noticeably irritated by the recent decision to award this year's Nobel prize for literature to the popular Milanese comic actor and author who has transformed agit-prop farce into a fine art.

"They are already asking us to name a theatre after him," muttered one city councillor the other day. "There are so many other Italian writers who deserved to win. And now I suppose we'll have to organise some sort of party for the man."

A far bigger and flashier party is likely if, as expected, Rudolph Giuliani wins tomorrow a new term as mayor of New York and accepts an invitation from Milan's business community and endorsed by Gabriele Albertini, the new mayor, to visit Italy's northern metropolis next year.

The "zero tolerance" mayor of New York, an Arnold Schwarzenegger of local government, appears to have become the new idol of Milan's city fathers.

His somewhat controversial success in reducing the Big Apple's crime rate, cleaning up the city and reviving tourism has clearly impressed the new right-wing administration, which wrested Palazzo Marino from the separatist Northern League in local elections earlier this year.

The good burghermasters of Milan have asked Mr Giuliani to tell them "how to combat crime, integrate immigrants, tackle the problem of the homeless, stimulate the city's cultural life and tourism". Their invitation raises an interesting question. Has the quality of life in Milan really reached such intolerable depths that it has turned the capital of high fashion and Italian finance into Europe's answer to the South Bronx?

Reading *La Notte*, Milan's evening newspaper, on the commuter train the other day you would have thought you were escaping not from Harlem but from Gotham City with no Batman in sight. The front page revelled in a story about a young barwoman found strangled in a school playground run by nuns, next to a piece about the stoning of a taxi. But the *pièce de résistance* was inside. The mummified body of a South American woman had been found in a bath. The photograph of the bloodstained tub was worthy of Hitchcock.

Every day there are stories of fights between illegal immigrants and drug dealers, not just in the derelict suburbs but under the arches near the cathedral or the *stazione centrale*, Milan's own Grand Central station.

Even poor old Mago Zurli, a conjuror who was one of Italian children television's most popular personalities a few decades ago, was mugged recently on a platform waiting to pick up his wife.

It is all too easy to exaggerate the true picture. The fact is that for all its ugliness Milan is probably still one of the most livable places in Italy as long as you can get out at weekends to take some fresh air in the Alps or by the seaside.

The Milanese are fond of their city, but they have become increasingly dejected by the drug problems, the traffic congestion, the graffiti, and the filthy parks and streets.

A recent poll showed that, given the choice, 25 per cent of the population would move to another city, compared with only 15 per cent five years ago. The poll found that crime and safety had become the main concern, followed by traffic, environment, cultural decline and poor public services.

The new mayor is well aware of the challenge he faces. To his credit, he admitted the city was now even dirtier than when he took over – to the annoyance of his main political sponsor, Silvio Berlusconi, the Milanese media mogul and the country's right-wing opposition leader.

A former head of Italy's metal and mechanical engineering employers' federation, and a small businessman himself, Mr Albertini wants to manage the city along the lines of a successful company.

He has appointed a "city manager" to act as chief executive of city hall. He has sought to distance himself from his patrons. And it is said he has drafted a letter of resignation which he keeps in his desk ready to sign should he face unacceptable political interference.

He is full of good, practical intentions. But Italy's Kafkaesque bureaucracy and Byzantine regulations have already proved a formidable obstacle.

For example, Mr Albertini believes he could improve safety simply by putting more policemen on the streets. But there is an odd regulation in Milan whereby after five years on the beat a policeman can get a desk job. So the city has more than 4,000 policemen and women shuffling paper and barely 300 on the streets. And those with office jobs have no intention of putting on their walking boots again.

Last month Mr Albertini took his team of councillors and advisers to a leafy retreat on the banks of Lake Maggiore to hammer out a strategy for the revival of Milan. And now he hopes to gain a little help, if Mr Giuliani is re-elected, from Broadway.

If he fails, the new Nobel prize winner may come to haunt him. Mr Fo, fed up with the council's indifference to his literary accolade, has decided to throw a bash of his own in Brera, Milan's Latin Quarter.

At least it will give people something to cheer about in a city where, Mr Fo says, the young have little else to do in the evening except "throw a few bricks at a black man".

The Monday Profile: Tasuku Takagaki, Bank of Tokyo Mitsubishi

Size isn't everything

Running the world's biggest bank might appear a job that would make any ambitious executive brim with pride. But ask Tasuku Takagaki, president of the Bank of Tokyo Mitsubishi (BTM), how he feels about the accolade and the reply is striking.

"I feel a little ashamed," says Mr Takagaki, who at 68 is arguably one of Japan's most powerful bankers. He is moving to the role of chairman next year.

"Perhaps a few years ago I might have been proud [of heading the world's biggest bank]. But now that has changed. Being big is not the only important thing."

His comment partly reflects modesty – and a business culture which puts emphasis on the enterprise rather than the individual. Like many Japanese business leaders, Mr Takagaki has maintained a level of invisibility that would be alien to Wall Street. He rarely gives interviews, has never graced the cover of a business magazine, and is barely known outside Japan's elite banking circles.

But humility is not the only reason for his unease. For as he comes to the end of his career, Mr Takagaki, like all Japanese bankers, is gripped by a debate about banking goals.

When he started his career in banking over 40 years ago, being big was almost the only measure of success. The banks' main role then was to finance the industrial reconstruction of post-war Japan rather than produce profits for shareholders.

But the climate is changing. In recent years the banks' profits and share prices have fallen. The question puzzling western observers now is whether this will push veteran bankers like Mr Takagaki into changing their business style and moving towards an Anglo-Saxon profit-driven culture.

Like most businessmen of his generation, Mr Takagaki was educated only in Japan. During his career he has worked in the US and Europe, and completed a stint in the Asian Development Bank. He speaks English with confidence and charm. Unlike many Japanese executives, he has no qualms about meeting journalists alone. And he uses the language espoused by western shareholders with ease.

As he regularly tells investors, he wants the "Big Bang" deregulation of the Japanese financial sector to turn his bank into a global bank. He wants it to move into higher margin businesses to boost underlying profits. And he wants the group's underlying return on equity, a mere 7 per cent, to be raised.

"When I say I am ashamed of our size, what I mean is that we need to use our assets in a more profitable way," he explains.

And he is keenly aware of outside judgment. His recent reading material, for example, included a critical report by the US investment bank Goldman Sachs. This argues that BTM cannot raise its return on equity rapidly unless it drastically cuts its size.

"The advice of Goldman Sachs is difficult to swallow, but we need to give it consideration," he says, confessing that until he read the report he had never realised the startling fact that BTM's assets are equivalent to 15 per cent of Japan's GDP.

BTM, as its name suggests, is essentially a hybrid: it was formed two years ago by a merger between the domestically orientated Mitsubishi Bank and the Bank of Tokyo, previously a specialist foreign exchange bank.

Before the merger, Mr Takagaki was president of the Bank of Tokyo, and he personally backed the merger. But fusing the cosmopolitan Bank of Tokyo with the conservative Mitsubishi has been a difficult task. Two years later, the strains are clear.

"If you ask me whether I think the merger was a good idea, then I say that in terms of corporate strategy it was the right decision," he explains. "But at a human level, was it a happy decision? Well, I am not sure..."

The internal tensions make radical action difficult. He favours cutting BTM's board, but does not expect to move to western levels.

"We have already cut the members from 75 to 63, but we cannot cut fast," he explains. Though the bank is seeking efficiencies, there are no plans to become like a US bank in implementing hiring and firing policies.

Yes, he explains, he wants BTM's assets trimmed, but not at the scale that Goldman Sachs would advocate. And though he would like a share buy-back, this is unlikely to occur soon.

"If you are running a company, is the return on assets really the only target? I am not sure.

"I think Japan is going to change faster in the next five years than it has in the past 20, and the change will be radical rather than gradual."

Gillian Tett

FT GUIDE TO:

MAYORS IN THE US

Several big cities in the US are electing their mayors tomorrow. What role does a mayor have in running a city?

An increasingly important one. Once derided as supervisors of "street lights, dog-doo and parking meters", mayors are now at the forefront of whole areas of social policy in their cities, many of them building national reputations in the process.

As the federal government has retrenched over the last few years, mayors have been left to pick up the pieces and are beginning to make important progress in developing workable policies for welfare reform, education, race relations and other matters.

So they are pretty powerful individuals?

That depends on the city. In New York, the mayor is the big cheese in the Big Apple; in Miami, he ranks somewhere between the chief rat catcher and the head of the local dog pound. US local government is a bewildering constitutional patchwork and the powers of city mayors are the product of at least a century of evolution and vary widely.

To some extent, their power is determined by the state. Much of what the federal government used to do has been devolved to the states. But many states have been happy to pass the burden on to the cities. In a few cities, however, the local bureaucracy has been brought to the point of collapse by middle-class flight to the suburbs and financial distress. Here mayors are mere figureheads of little constitutional significance. These are the exceptions, though. Overall, there is little question that mayors as a whole are regaining lost ground.

Who are some of this year's successful mayors?

New York's Rudy Giuliani is, without a doubt, the most nationally prominent, at least for the right reasons. The former public prosecutor with the irritating giggle and the comb-over haircut was elected four years ago, a Republican in an overwhelmingly Democratic city. His first term has invited comparison with that of the godfather of US mayorship – Fiorello LaGuardia, mayor of the city in the 1930s and 40s and immortalised in the eponymous New York airport.

Mr Giuliani has presided over a marked fall in violent crime, declines in public health problems, notably AIDS, and most importantly, the first World Series win by a New York baseball team in a decade – the Yankees slugging their way to victory last year. All of which makes him a shoo-in for re-election tomorrow.

Anybody else?

One or two others have semi-national status. Richard M. Daley, son of a famous father, has done an impressive job in improving the public education system in Chicago, and was singled out last week by President Bill Clinton for special praise. He was re-elected earlier this year. Two Californians have also been prominent in the past year – Willie Brown in San Franciso and Richard Riordan, another Republican, who ended decades of Democrat control in Los Angeles a year ago.

In Detroit, that 1990s metaphor for urban decline, Dennis Archer, has begun the process of resurrecting the city's fortunes, securing a deal to revitalise the decrepit downtown area. Norm Rice of Seattle has played his part in making the city "America's Best Place To Live", according to every quality-of-life survey. A $500m facelift for the downtown area was one of his achievements.

And then of course there's Washington DC?

"Moscow on the Potomac" it has been called, but that seems harsh on Moscow. Mayor Marion Barry is regarded as a victim by blacks and they have the electoral muscle – they make up two-thirds of the city's population and re-elected him after a period in the wilderness that followed his conviction for cocaine possession. The near financial collapse of the city last year has changed things – much of Washington's affairs are now run directly (again) by the federal government. Mayor Barry remains as popular as ever.

What are the political implications of the increasingly prominent role played by mayors?

Fiorello LaGuardia once famously said there wasn't a Democratic or a Republican way to collect the garbage, but with more powers being devolved to the cities, that may change. The mayoralty used to represent the local bastion of Democratic party power. Now New York and LA, the two largest cities, are both firmly in the Republican camp, and Republicans are leading the way in many areas of welfare and education reform.

Most cities across the world have the kind of mayors you're talking about. And now London may be getting one.

Indeed. The UK government last week published a bill preparing for a referendum next year to find out whether Londoners want their own local authority and elected mayor.

Gerard Baker

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales

Peter Norman · Economics Notebook

The taxpayers are revolting

Two of Germany's wealthiest states are leading the fight for reform

Revolt is not a word that springs to mind in connection with Germany. The federal republic, with its host of regulations and an embattled welfare state that still aspires to coddle the citizen from cradle to grave, is the home of strong vested interests for maintaining the status quo.

But revolt aptly describes the behaviour of Germany's taxpayers and contributors to state social security. "I would like to see the German who still submits an honest tax declaration," the weekly newspaper Die Woche quoted Roman Herzog, Germany's president, as saying last month. "Anyone abiding by the law must often feel an idiot."

The Institut der deutschen Wirtschaft (IW), the economic research arm of the Cologne-based federation of industry (BDI), has estimated that Germany's informal economy ballooned from DM103bn in 1975 to DM548bn (£188bn) this year. This more than fivefold increase in just over 20 years boosted the black economy from 6 per cent to 15 per cent of gross domestic product. The cost to the German state this year is thought to be about DM125bn in lost tax revenues and DM110bn in lost social security contributions.

Hardly a week goes by without news of a raid by German tax investigators on a bank headquarters. The raids, aimed primarily at finding customers with undeclared earnings abroad, have triggered high-profile resignations. Some reports suggest that 80,000 Germans are under investigation for tax evasion.

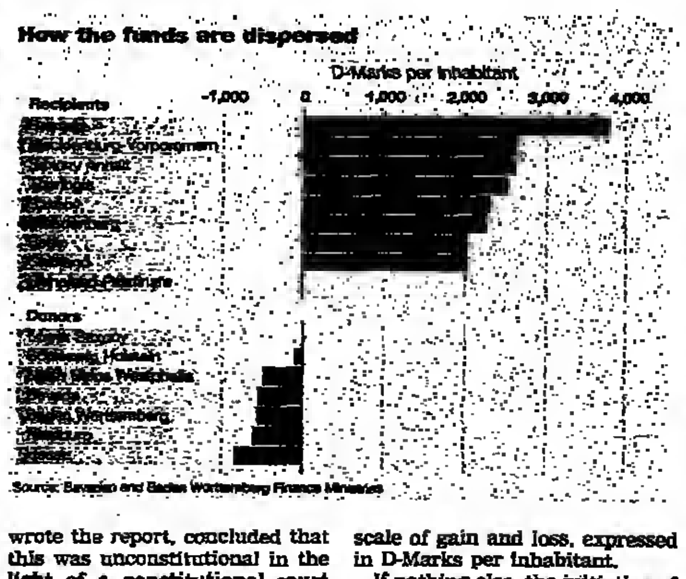
Theo Waigel, finance minister, will next week convene a meeting of experts to forecast tax revenues for this year and into the next millennium in the sure knowledge of shortfalls running into billions of D-Marks. Some deficiencies will reflect teething troubles associated with recent changes to the tax system such as the abolition of wealth tax and changes to inheritance tax. But, as Germany's six leading economic research institutes noted last week, others will result from tax evasion and avoidance.

Mr Waigel did not wait last week for the deliberations of the working group. He imposed an almost total freeze on new discretionary spending by the federal government.

Until now, however, the taxpayers' revolt has been a private sector matter. No longer. Two of Germany's richest federal states, or Länder, have served notice that they will no longer tolerate the present system of "financial equalisation" which channels revenues from their above average economic performance to poorer states in the federation. The revolt could now have significant implications for Germany's economy and society and, possibly, for the country's relations with its European neighbours.

Bavaria and Baden Württemberg have taken the first step towards challenging the system of financial equalisation in the constitutional court.

Last month, a special study commissioned by the two Länder found that Germany's financially strong states had to transfer more than 90 per cent of the tax revenues originating in their territory that exceeded the national average to poorer regions. Hans-Wolfgang Arndt, the lawyer who wrote the report, concluded that this was unconstitutional in the light of a constitutional court ruling two years ago that no taxpayer should be expected to cede more than 50 per cent of income to the state.



After taking account of additional federal transfers, Baden-Württemberg was transformed last year from Germany's third ranking state in terms of its financial strength into the second weakest. Bavaria slipped from fourth strongest to being the weakest of the 16 Länder.

The heavily indebted Saarland, governed by Oskar Lafontaine, leader of the opposition Social Democratic Party, saw its ranking soar, thanks to the subsidies, from 11th to third. The city state of Bremen, also heavily indebted, jumped from fifth to first. The graph above shows the scale of gain and loss, expressed in D-Marks per inhabitant.

If nothing else, the initiative of Bavaria and Baden-Württemberg will help keep alive the cause of tax reform in Germany following the failure of the government's recent bid to cut income tax rates and curb tax privileges. The present income tax system, with a top rate of 53 per cent plus a "solidarity surcharge" levied to help finance eastern Germany, is incompatible with the principle that taxes should not exceed 50 per cent of income.

If the case goes to court and Bavaria and Baden Württemberg win on the basis of this principle, the two states would be richer by DM1.4bn and DM1.2bn respectively a year. They and other donor states would have additional funds for modernising and restructuring their economies at the expense of their neighbours.

This greater differentiation in wealth would almost certainly trigger fiercer competition inside Germany for new business investment with the richer states having a clear advantage. It would also create pressure for the states to be given powers to fix and levy taxes, rather than be allocated a share of revenues.

Some politicians think the issue highlights the need for changes in the political map of Germany through a reordering of the federal states with the absorption of small, financially weak states such as the Saarland and Bremen by their richer neighbours. Erwin Huber, Bavaria's finance minister, believes the present system hinders removing the structural deficits of financially weaker states.

"A stronger, more convincing federalism is only possible in the long term with strong federal states. Only a new ordering of the states could achieve that," Mr Huber said.

The move by Bavaria and Baden Württemberg may have an even wider impact. Action limiting financial transfers between states inside Germany, hitherto the most passionate supporter of European integration, could ease concerns that Europe's planned economic and monetary union will degenerate into a mechanism for transferring funds from strong to weak members.

But the German taxpayers' revolt should also set alarm bells ringing in other European Union capitals. It will reinforce Bonn's determination to seek a reduction in Germany's net contribution to the EU budget, an issue that is already making Germany a more difficult EU partner.

مكرر من الاصل

No Nigels in modern classics

The classical music industry is looking for new ways to boost sales, writes Alice Rawsthorn

The album covers from BMG/Conifer's Lesley Garrett and EMI's Kennedy: can they boost sluggish classical record sales?

If you walk into a UK record store today, after squeezing past the Spice Girls fans clamouring for copies of their new album, you might find another new release, a recording of Elgar's *Violin Concerto* by the Birmingham Symphony Orchestra and a violinist called Kennedy.

The violinist is better known under his full name, Nigel Kennedy. He and his record company, EMI Classics, have dropped the "Nigel" in an attempt to persuade the public to forget the "punk violinist" who once sold 2m copies of his Vivaldi's *Four Seasons*.

"Nigel's changed," says Theo Cap, managing director of EMI Classics (UK). "He wants to be positioned as a first-class violinist again."

Every element of EMI's strategy for relaunching Mr Kennedy is intended to present him in a "serious" light. Meanwhile, publicists at BMG/Conifer, a rival classical record company, are busy trying to schedule slots on populist television programmes, such as the Des O'Connor show and The National Lottery Live, for Lesley Garrett, their star soprano, whose new album, *A Soprano Inspired*, comes out in a fortnight.

Ms Garrett has striven to broaden her audience by singing *My Fair Lady* at the Hollywood Bowl, and including *Climb Every Mountain* among the Handel songs on *A Soprano Inspired*. She can afford to strike an accessible image because she is still highly regarded within the opera world; whereas the violinist-formerly-known-as-Nigel faces a tough task in rebuilding his image among classical purists.

His television appearances to publicise the Elgar album will be scrutinised by EMI and, no, Mr Cap does not consider Des O'Connor or the Lottery show to be "suitable for Nigel right now". Press interviews will also be rationed, and even the design of the album cover is deliberately self-effacing.

It features a photograph of a bulldog (chosen to symbolise the British nature of the recording) rather than Mr Kennedy himself, and the composer, Edward Elgar, gets top billing.

Like other classical record companies, EMI desperately needs star performers whose albums are capable of achieving significant sales in a lacklustre market.

Classical record sales have been sluggish throughout the 1990s, falling from 16.69m units in 1990 – when the Three Tenors' *In Concert*, the best-selling classical recording ever, was released – to 14.71m last year, according to the British Phonographic Industry. The core market of devoted classical collectors has remained fairly stable, but the industry has had little success in expanding it.

"Sometimes you hear people working in classical music complaining that their core customers are all in their 60s, 70s and 80s, but it isn't true," says Neil Boot, marketing director of Virgin/Our Price, the WH Smith subsidiary which is one of the UK's largest record chains.

"There's a healthy market of serious collectors out there. It's a niche market compared to rock and pop, but it's sizeable. The problem is that it isn't getting bigger."

The companies that dominate the market, the specialist classical subsidiaries of multinational groups such as the UK's EMI and PolyGram of the Netherlands, continue to repackage existing recordings and to issue new releases for collectors.

However, the profit margins on classical music are considerably lower than for rock and pop, partly because the cost of recordings involving entire orchestras and opera companies are so much higher, and partly because the level of sales is generally lower.

When the rock and pop markets were buoyant in the early 1990s, the multinationals took a lenient view of the performance of their classical labels. They have since become far tougher, as rock and pop sales have stalled.

PolyGram, EMI, Sony and Bertelsmann have reshuffled the management of their classical subsidiaries. The new managers have cut costs, by shedding staff and deleting weak sellers, and are now trying to find ways of stimulating sales.

Until recently, classical labels were convinced that they could expand their core market by persuading the people who bought cheap compilations of accessible music – such as *The Best Classical Album In The World . . . Ever!* and *The Best Opera Album In The World . . . Ever!*, each of which has sold 250,000 units for EMI's Virgin Records – to purchase complete recordings of symphonies, operas and concertos.

Those hopes proved unfounded. "Compilations sell very well in the short term," says Tony Shaw, classical product controller at the HMV record chain. "But there's absolutely no evidence to suggest that people then move on to buy full price classical albums."

Record companies have tried other ways of drawing new consumers into the core classical market. This summer, EMI invested heavily in developing its Mini Classics series, a collection of 30 well known pieces of classical music, each lasting about 20 minutes, which retailed at £2.99, roughly the same price as a pop single.

EMI hoped that Mini Classics would be the musical equivalent of the successful Penguin 60s series of literary extracts, and that it would also act as an accessible introduction to longer classical recordings.

Retailers responded positively and EMI shipped large quantities of its Mini Classics to supermarket chains. But consumers were less enthusiastic and fewer than 80,000 copies were sold, well below EMI's expectations, according to Mr Cap.

Recent research by Virgin Records among affluent, well-educated over 35s – the type of consumers regarded as prime "converts" to classical music – suggests record companies are unlikely to succeed in turning them into classical collectors.

"The people in the research groups knew the difference between Mozart and Beethoven, but not what baroque music was; some said they did, but described something completely different," says Peter Duckworth, co-director of commercial marketing. "A lot enjoyed listening to Classic FM, but they were happy to bear edited versions of the music. They didn't want to listen to whole symphonies going on and on, with the noisy and tuneless bits.

"And they certainly didn't aspire to collecting classical music. They thought that was something anoraks did."

Other record companies have come to a similar conclusion. Rather than mounting fruitless attempts to "convert" unenthusiastic consumers, they are concentrating on proven ways of persuading them to buy occasional classical albums, notably by linking them to film soundtracks, like *Shine*, or to individual stars.

Even the optimists in the industry do not expect to replicate the success of the Three Tenors, whose 1990 and 1994 recordings had combined sales of 20m worldwide. But they are hopeful of matching the sales of younger tenors, such as PolyGram's Bryn Terfel and EMI's Roberto Alagna, or sopranos like Lesley Garrett, whose *A Soprano In Red* sold 100,000 copies in the UK, prompting BMG/Conifer to sign her to a multi-album deal this summer.

Yet classical stars are hard to find. Many gifted musicians are deterred by the criticism of overtly populist figures such as the old Nigel Kennedy, and others are reluctant to take time off from their performing schedules to fulfil record companies' publicity schedules.

Mr Cap says EMI is in the throes of combing through its catalogue to drop the artists who are not willing to promote their recordings, in order to concentrate its resources on those that are.

"The way ahead for a company like ours is to work with great stars who are really exciting and want to develop their recording careers," he says. "It's a question of developing the right artists, like Nigel. He'll never be a conventional classical musician, but he's a wonderful violinist."

A fresh approach to soap powder

P&G is cutting a dash with its new ads, writes Alison Smith

It seems as incongruous as an elephant on skates: Procter & Gamble, the US household and personal products group known for the size of its advertising budget and the staidness of its ads, is starting to cut a dash with its UK marketing.

A new openness to quirky or unexpected approaches can be seen in the way P&G's detergent brand Ariel is among the sponsors of the England football team for the 1998 World Cup; in the spoof "Men in Black" ad for anti-dandruff shampoo Head & Shoulders; and in the decision to launch the Ulay cosmetic range last month with a "virtual art gallery" of commercials showing the work of five contemporary women artists.

What marks these initiatives from examples of P&G merely behaving pragmatically in order to reach its target market is that they are mainstream brands for which more conventional approaches have previously satisfied the company.

The very fact that such moves have been approved turns the spotlight on the approach adopted by the world's largest advertiser. P&G has a rigorous system for measuring how a prospective campaign might change purchasing decisions.

Tamara Ingram, joint chief executive at ad agency Saatchi & Saatchi who has worked with P&G over several years, says: "The company is always interested in advertising that changes consumer behaviour and it has a great deal of knowledge about what works and what doesn't."

Critics say that P&G's knowledge is applied aggressively and heavy-handedly, in a system that tends to dilute creativity and produce advertising that "more often than not is incredibly dull".

P&G rejects the charge of conventionality, but Sally Woodage, a public affairs manager at P&G, defends the traditional images associated with some of P&G's core household brands.

"We will always be looking for advertising that is relevant to customers. There's a limited value to advertising that is inspiring and exciting people who have no intention of buying our product."

The new initiatives reflect a sense within the company that many UK consumers are becoming increasingly sophisticated in their attitudes towards advertising.

Ann Francke, Oil of Ulay marketing director, says: "We've come to appreciate that you do need to be bolder in how you present your brand to consumers, and part of that is what you do with the advertising.

"If you look across our portfolio of brands and how we market them, we are trying to be more innovative. Because there are so many new influences on consumers you need to be more flexible and up to date in how you reach them."

Ms Woodage says: "As the consumer base changes and becomes more aware of advertising, we have to accept that there are other ways of building a bridge with our customers."

So far, the most striking approaches P&G UK has been pursuing have largely focused on categories such as cosmetics, where image is important. But if they prove effective, they could well spread to the bulk of P&G's most conventional sectors.

While the UK has not yet seen the last of the Daz doorstep challenge, the day is drawing closer when P&G may be prepared to swap one of its common-sense detergent ads for a new soap campaign with added creativity.

Durex builds a global brand name

Roger Taylor sees a creative approach to selling condoms

Advertising condoms and tampons has never been easy. There are always people who would prefer not to see such items mentioned in public.

Patrick Legrand is well used to dealing with the problem. He has recently moved from Tambrands, where he was a brand manager for Tampax tampons, to London International Group, where he will spearhead the company's new global marketing strategy for it foremost product, Durex, the world's leading brand in condoms.

The challenge in both cases has been raising the profile of a product which is liable to cause offence or embarrassment just by the mention of its name.

Many countries have restrictions on the advertising of such products – for example, Malaysia bans television and press advertising of condoms.

But there are ways of getting round this problem. The internet is one. It allows a company to communicate directly to consumers all over the world free of interference from local regulators.

Satellite television is another. The relevant advertising regulations are those applying in the country from which the signal is first transmitted. As a result, London International is able to run a worldwide campaign for condoms on MTV, the satellite pop music channel, using advertisements which are not subject to local regulation.

But controversy can also be turned to the company's advantage to whip up coverage in the media.

London International conducts an annual global survey on sex. The latest, released last week, includes an array of trivial statistics – for example, that the French have sex more often than the British but Britons do it for longer; and while men are more likely to want their partner to wear sexy underwear, women want their partner to drink less.

As a PR stunt it is extremely successful and got the Durex name mentioned in most UK newspapers.

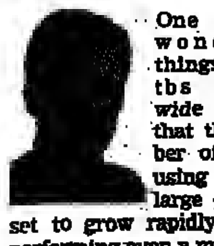
In the US, where Durex is not the leading brand, London International is taking stronger measures. It has had a lot of coverage by funding a campaign, spearheaded by Jane Fonda, called Truth for Youth to fight "abstinence only" sex education programmes.

Mr Legrand's arrival at London International is the latest step in the company's plan to build the Durex name into a global brand. It has been buying local condom brands around the world and is bringing them together under a single brand identity. Mr Legrand says the company is now in the second stage of this process.

Having defined the brand values and after extensive market research, the company has decided that Durex is to be the "sensitive, loving, feeling brand". It is now ensuring that all local brands are under the global umbrella and promoting the Durex name world-wide.

Tim Jackson • On the Web

Crumbs from the golden cake



One of the wonderful things about the world wide web is that the number of people using it is so large – and is set to grow rapidly – that performing even a minor service to a small percentage of users can be big business.

This reminds me of a line from Tom Wolfe's novel, *The Bonfire of the Vanities*, when Sherman McCoy, the investment banker hero, is asked by his daughter exactly what he does. As he struggles to explain the basics of mergers and acquisitions to a five-year-old, his estranged wife steps in with a pithy answer.

She tells her daughter that McCoy is like someone whose job it is to pass around slices of an immense cake made of solid gold, and his pay consists of being allowed to keep the golden crumbs that fall as the slices are cut.

The best example of a "golden crumb" business is now one of the most prominent businesses on the internet: Yahoo. Founded by a pair of Stanford students who simply wanted to maintain a joint list of their favourite sites on the Web, Yahoo is now a powerful content conglomerate offering an impressive range of free information services.

It makes money both from advertising and from commissions on the revenues from transactions carried out by its users with other companies who pay for a presence on its site.

But Yahoo is not the only business whose model is based on the golden crumb principle. Two weeks ago, I came across what looked like an idea that is so small as to be almost insignificant but brilliant all the same. Lured by an advertisement on a search engine, I found myself at a site called *www.fortune-cookies.com*.

Displaying a Chinese-looking medallion bearing the legend "Master Fu Fortune Cookie", the site's home page invites you to click through to a page showing pictures of three fortune cookies. Beneath each is the word "crack". Above the cookies is a banner ad.

When you click on the crack or the cookie, a scrap of paper opens up containing an epigram for the day. Try again, and the site warns that you are allowed to open only one cookie a day. Banal? Maybe, but the site provides 10 seconds of light entertainment.

My first reaction was that this was a wonderfully recursive business idea. The site pays for advertising space on other sites to draw people to it, but displays banner ads which other companies will pay for.

The idea looked like a promising way to raise revenue with cheap content – the network equivalent of a magazine with almost zero editorial costs but a valuable advertising franchise.

Unfortunately, it wasn't quite like that. After a few visits I noticed that the banner ad always seemed to be the same link to a rather dull south German lottery.

But there are other real businesses based on the golden crumb. Wired News reported last week on companies that have found ways to profit from mistyped web addresses. One of them, Nerds Inc, has set up a service called "typo.net".

When you mistype a name – *yaho.com*, for instance – you arrive at a web page which suggests that you probably missed the second 'o' from yahoo, and invites you to click on a link to the right place. Before doing so, it shows you an advertisement which has been paid for by another company.

The site cannot be accused of claiming any association with the uniform resource locator (URL) you intended to type. Its home page describes the service as: "The first World Wide Web URL spell checker".

Another group, Data Arts, uses the same principle to promote its business. It has registered dozens of domain names that are similar to popular sites – Duracel, Budwaiser, Cicso, Infseek, British-Air, Webcrowler, Levy-Strauss, Mitabilis, Lotos, KalvinKlein and Novelll – and displays a page on each of them advertising its own services.

To protect itself from trade mark complaints, Data Arts begins each page with the message: "You have made a typo – we are not affiliated with or endorsed by your targeted destination."

Both groups provide a pointer to entrepreneurs.

The principle is this: find a golden cake that is large enough, and then work out a way to get some of the crumbs. The results, as Sherman McCoy's wife knew so well, can be very lucrative.

US corporations are using a range of initiatives to try to ease the burden for workers with children, says **Victoria Griffith**

Child care challenge

By working the night shift at AT&T's customer help lines in St Louis, Missouri, Dianna Reed earns about 10 per cent more each month than if she worked during the day. While she needs the extra money, Ms Reed worries constantly about her three-year-old son. "AT&T tried to help me find a 24-hour day care centre, but it didn't help much; there was nothing affordable and convenient to my work or home."

In the end, she decided to drop off her child every night at his father's, from whom she is separated. Ms Reed also employs a childminder during the afternoons, while she sleeps.

The child-care conundrum, once viewed mainly as a by-product of dual-career, upper-income couples, is starting to gain visibility in the US as a concern for workers of all income levels.

President Bill Clinton shone the spotlight on the issue last month by proposing a $300m (£188m) initiative for training and background-checks for care providers. He promised to set out a comprehensive plan during his State of the Union address early next year and said he would work with the private sector on innovative solutions. First lady Hillary Clinton, credited for drawing her husband's attention to the issue, has promised to make quality child care a personal crusade.

US corporations are increasingly aware of the impact inadequate child care has on their employees. One side-effect is absenteeism: if a nanny or child falls ill, for example, parents are often forced to stay at home. A recent survey by the Families and Work Institute, an independent research body, found that a quarter of employees with children under 12 took eight or more days off work each year because of child care troubles.

Sandra Vargas, vice-president of human resources at Chase Manhattan Bank, says she and her husband used up most of their remaining annual leave during a two-week period a few years ago when their childminder left unexpectedly. "It was very negative for my career because other workers had to get involved to help me meet deadlines," she says.

Workers' concentration is also affected. Hillary Clinton says that once when she had to be in court, her daughter Chelsea fell ill. She managed to get a childminder but she says her mind wandered, and she phoned home during every break.

Some of the greatest challenges are for workers in lower income groups. Good quality child care can be prohibitively expensive for this group, with employees working shifts outside the normal hours of nine-to-five often having the fewest options.

Lower-income employees are also more likely to be single parents carrying most of the burden of child care. The problem for low-income workers has become so acute that some of the largest trade unions in the US have made child-care subsidies and back-up care important elements in their negotiations with companies on pay and conditions.

US corporations are beginning to respond. On-site child care, the most popular solution of the 1980s, failed in many cases because parents did not want to drag their children with them on the long commute from the suburbs to the city. The focus has shifted to working with professional day care providers outside the company. International Business Machines has paid for day care centres in Raleigh, North Carolina, to stay open for longer hours. In return, the centres set aside priority slots for the children of IBM employees. NationsBank offers a $35 per week subsidy for child care to its low-income workers. Many corporations operate a referral service, which helps employees locate appropriate facilities.

Quality is of far more concern to corporations than it once was. Scientific studies in recent years have highlighted the importance of good quality care in the early years for children's development. An internal AT&T study revealed that the single greatest source of stress for workers was teenage children.

"We figure if our workers don't get good care now, we'll pay for it later, because their kids are more likely to have problems in later years," says Burke Stinson from AT&T. The concern has encouraged companies such as AT&T and Citibank to train carers in basic skills, including safety and hygiene, and provide art equipment and computers to centres free-of-charge.

While most corporations still have a long way to go in addressing child care issues for their workers, Americans feel there has been some improvement. Faced with a tight labour market, US corporations increasingly depend on family-life programmes to inspire loyalty in their labour force.

A survey at the cosmetics group Johnson & Johnson revealed that 71 per cent of employees using family/life programmes rated them as very important in their decision to stay with the company. "Even workers without children appreciate the initiatives, because they are less likely to have to fill in for an absent or distracted colleague," says Betty Purkey, who is in charge of family life issues at Texas Instruments.

Yet progress has been far from universal and most US employees with young children can expect to face a child-care crisis at some point in their careers. President Clinton's focus on the issue will continue to prove welcome to parents caught between home and work.

A growing number of employers in the UK, too, are taking action to improve child care provision, according to the National Council for One Parent Families, *writes Diane Summers.*

A government-backed report from the council, published last week, details the variety of approaches taken – subsidised nursery places and holiday play schemes appear to be the most widespread measures.*

Examples given include the Ministry of Defence, which operates 31 workplace nurseries, providing 478 full-time places; Channel 4 television which makes child care payments of £150 a month to staff who meet certain criteria; London Electricity which subscribes to a telephone helpline providing free advice on parenting and child care to employees; and Lloyds TSB bank which provides a workplace nursery, child care vouchers and a holiday play scheme.

The report argues that helping with child care is good for public relations and benefits employers by reducing staff turnover, lowering rates of absenteeism, increasing staff loyalty and reducing the time staff spend on resolving child care problems.

**Lone Parents into the Workplace: the business case. £15. From the National Council for One Parent Families, 255 Kentish Town Road, London NW5 2LX. Tel: 0171 267 1361.*

James Harding meets one of the few Chinese managers to have achieved star status

A single-minded approach to quality

Zhang Ruimin is famed for smashing up faulty refrigerators in front of his workers: his reputation dates from the 1980s when he took a sledgehammer to sub-standard goods to teach employees a lesson in quality control.

The president and chairman of Haier Group, the state-owned white goods maker, is one of the very few managers in mainland China to have achieved anything approaching star status.

The culture still tends to fête the proletariat rather than the bosses. Even the notion of a professional manager is relatively new in China's infant corporate culture, where the heads of so many state companies are party officials transferred from the government bureaucracy. Some are earning a few years business experience before returning to government service, others are simply put out to pasture in a local boardroom. But Mr Zhang, who has served Haier since he took over the management of what was a heavily indebted company in 1984, says he has no interest in official promotion.

"My only interest is in managing the business. I am not an official and I don't want to be on the official road to higher positions in the government," he says.

He has won back market share from foreign competitors such as Whirlpool of the US, and sales have soared from Yn1.1bn five years ago to expected turnover of Yn10bn (£740m) this year. While Haier's ultimate owners may be the Chinese state, he says the company is structured as a "collectively owned enterprise" at one remove from direct government ownership.

Such single-mindedness and relative independence has distinguished Haier from the tens of thousands of state companies, where "the management instinctively turns to the government when a problem arises, rather than standing up to the market," says Mr Zhang.

As Haier has expanded rapidly over the last few years, it has bought, merged or absorbed more than 15 state enterprises. Last month, the company, which made its name selling refrigerators, started making colour televisions – part of a strategy to become a comprehensive domestic appliance producer.

Along the way, Mr Zhang says he has seen the chief problem in state enterprises. The companies he has taken over were generally endowed with decent equipment and many had adequate capital, but lacked the competitive spirit within the organisation that encourages "people to fulfil their personal potential".

Promotion in most state companies depends more on patronage than performance, but at Haier they have developed an "objective appraisal system". All of the company's 13,000 employees are assessed monthly and salaries and advancement hinge on these appraisals which index complexity of a job, the quantity of work and quality of service.

Chien Shiao-Ming
Zhang: need to maintain quality

Hardly revolutionary stuff by modern management standards, but Mr Zhang's employee assessment system has offered a mechanism to other Chinese managers and workers to improve efficiency, as well as a lesson in two of the less palatable features of the market economy: wage inequality and job insecurity.

President Jiang Zemin told a congress of the ruling Communist party recently that China would accelerate the reform of state industry, increasing efficiency by cutting surplus workers, restructuring company ownership, reducing state subsidies and forcing enterprises to face up to the rigours of the market.

As Beijing seeks to drum a competitive spirit into the state sector, officials are looking at Mr Zhang's methods to help define the new corporate orthodoxy. He says 130,000 people from state companies and government departments visited Haier's headquarters in Qingdao, on China's eastern seaboard, this year.

But Mr Zhang looks further afield to find models for managing Haier. "From the Japanese, we have learned about teamwork and the Americans have shown how to encourage innovation, creativity," he says, mentioning for the third time in the interview the "enterprise culture" that distinguishes General Electric of the US.

Given the sheen of his synthetic fibre suit, the soft leather slip-on shoes, bland company tie and the street barber's crop of his hair, Mr Zhang has not adopted the outward style of an American manager. But he has a profound interest in US business thinking – an avid reader of western business books, Mr Zhang has just finished Peter Senge's *The Fifth Discipline*, which he appreciated for its emphasis on what he describes as the idea of "a people-nurturing business".

Meanwhile, Haier is squaring up for the awkward problems that lie ahead for what is still only an infant success story in a developing economy.

The company has begun to diversify, starting pharmaceuticals production this year – a move that has unnerved analysts who fear Haier may expand too rapidly into areas in which it has no expertise. Overseas, Haier has set up a production facility in Indonesia, is closing a deal in Malaysia and looking to set up production facilities in South Africa and Mexico.

There are also doubts about how Haier will fare post-Mr Zhang. So many Chinese companies enjoy a brief period of grace while an exceptionally charismatic person leads the business, only to be mired by inefficiency, arrogance and corruption when an inadequate apparatchik takes over.

Also, Haier has ambitious financing plans. It aims to issue $100m (£63m) B shares on the Shanghai Stock Exchange (B shares are for foreign investors) and is mulling a dual listing on international markets and a possible Hong Kong share issue. Mr Zhang believes that "in the future the Chinese yuan will be fully convertible, so we will need to learn and understand much more than we do about financial management".

Mr Zhang does not seem unduly concerned by the technical details of expansion, which he says he leaves to heads of department to decide more or less independently. His confidence comes, he says, from having drilled his staff in the need for quality – the lesson he set by smashing faulty fridges is difficult to forget. Standards will be maintained only as long as Haier has enough "talented people", he says. "The problem for us will be personnel. The question is can we maintain the quality, can it keep pace with our growth?"

Take heart and ignore the the stock market gyrations

John Kay

For those Financial Times readers who peruse the paper as the tube hurtles into the City of London, last week's ride was even more nerve-wracking than usual. But others – the ones who make brass bedsteads in Birmingham – were probably chortling over their cornflakes. Were they right? Or do the gyrations of the stock market matter to the real economy?

Even if the bedstead manufacturer does not shed any tears when City speculators make less money, it is these profits which are used to buy his bedsteads. A fall in wealth reduces demand for output, and so may create knock-on effects from a market crash.

But does a market crash really represent a reduction in wealth? Ultimately, stock market values are based on the expected earnings of corporations, and if these are lower then everyone who has a claim on the earnings of corporations is worse off. But when the stock market falls by 15 per cent in a week, it is not because traders have revised their earnings estimates downwards. It is because a speculative bubble has burst, and the underlying values of shares – measured in terms of the earnings they will generate – have changed little, if at all.

But behaviour is influenced by how well off people think they are, not just how well off they actually are. Sometimes this effect can be large. In the 1980s, when the stock market boomed and rising house prices were a standard topic of dinner party conversation in the UK, for example, consumption grew much faster than income and the savings rate fell to unprecedentedly low levels.

But that has not happened this time. If people are wisely sceptical of the reality of their paper gains, they will also be wisely unconcerned if these paper gains evaporate.

So what of the effects of stock market levels on investment? Doesn't a rising stock market facilitate the issue of new equity, lower the cost of capital, and so encourage new investment? If it does, then a market crash could lead companies to cut their investment plans.

Here too the issues are more complicated than they seem. First, the stock market ceased a long time ago to be a significant provider of new funds for industry in the UK and many other places. Over the last 20 years or so, the principal source of new equity has been privatisations and demutualisations, which simply represent a transfer of assets which already existed.

But behaviour is influenced by how well off people think they are, not just how well off they actually are

Flotations of new businesses and issues of new shares by established companies have been matched by share buy-backs and cash payments for acquisitions. Corporate investment is funded, not from the stock market, but principally from retained earnings and secondly from borrowings.

Second, you might expect that high share prices would encourage companies to invest in new assets while low share prices would allow them to pick up existing assets cheaply through buying other companies. But the reality seems to be the other way round. Every stock market boom has been associated with a frenzy of merger and acquisition activity, and the last is no exception. In retrospect, it may be that merger Monday, when five large international deals were announced on the same day, proves to be the top of the last bull market.

And third – and paradoxically – the way in which the cost of capital is conventionally measured means that the dizzier the levels which markets reach, the higher, not lower, is the cost of capital. The usual means of measuring the cost of equity is to add an equity premium to the risk free rate. The risk free rate is found by looking at the yield on government bonds. The equity premium is measured by calculating the average amount by which historic returns on equities have exceeded earnings on these safe assets.

Over the period for which reasonable data is available – broadly, the period since the first world war – this equity premium has averaged an astonishing 8 per cent in the UK and the US. Unless you were very unlucky in the time at which you chose to invest, most sub-periods have shown similar returns. The most convincing explanation of the size of the premium used to be that investors had consistently underestimated inflation. Those who had bought bonds had done worse than they had expected, while holders of shares had done better.

But the difference between bond and equity returns has persisted even in the 1980s and 1990s, in which inflation has generally been overestimated by investors. The boom in the stock market in 1987 and 1997 has ensured that all estimates of the cost of capital have remained high. The only thing that will stop finance professors from arguing that companies need real returns well over 10 per cent before they should invest will be a prolonged stock market slump. That is another reason why we should not worry too much about the effect of market fluctuations on investment.

So the objective effects of market fluctuations on consumption and investment will be rather marginal. But there are more subjective effects on confidence. When Wall Street experienced its first great crash, in 1929, the consequences of the turmoil were combined with the unsound capital structure of many American businesses to produce a near collapse of the fragmented US banking system. This was a significant contributor to the depression which followed. Something similar is happening in Thailand today.

But western economies, complex and battle hardened, are today much more robust to these developments. If you are a manufacturer of brass bedsteads, reading this over your cornflakes in Birmingham, you can probably chortle on.

The author is the Peter Moores Director of the Said Business School at Oxford University and a director of London Economics. This column appears fortnightly.

BUSINESS EDUCATION

Lunching and learning

A happy student is a smart student writes Della Bradshaw

Every week Robert Hamada, dean of the Chicago Graduate School of Business, has lunch with a group of his students. It is not merely a social event. It is the result of a policy decision by the school that it had to be better informed about the needs of students.

With four Nobel prize winners on its staff, the academic standing of the school has never been in doubt, says Prof Hamada. "But we really did not put enough stress – I'll say this openly – on the other services to our students and alumni."

Chicago is not the first US business school to come to this conclusion. Just a couple of years ago Kim Clark, the new dean at Harvard Business School, made the same decision. He followed in the footsteps of Thomas Gerrity, the slick principal at Wharton, who had taken his school to the top of the league tables with a revamped MBA programme and a policy of involving students, acadamics, alumni and business in the school's decision making process.

Prof Hamada acknowledges that be is following a similar route. "Some schools caught on to this sooner than others," he concedes.

One of the quick fixes made by Prof Hamada has been to improva tha buildings. Over the summer he spent $4.3m (£2.65m) on fast-track improvements to existing campus buildings. Students are now participating in the design of a new campus building which will house lecture theatres and a student lounge.

There hava been other moves to improve the quality of student life. Some are relatively banal: two offices dealing with student registration and "student life" (clubs and associations) have been moved next to the classrooms so students do not have to trek across campus: ("The winter gets somewhat cold in Chicago," explains Prof Hamada.)

Dean Robert Hamada admits Chicago school of business once neglected the non-academic needs of students

There has also been a push to increase the number of clubs and student interest groups.

Other moves have been more innovative. A mentoring system has been introduced to help all first-year students oo the two-year MBA course. Each first-year student is assigned two second-year students plus one alumnus of the school to help with career development.

Prof Hamada calculates thet some 10,000 MBA alumni live in the Chicago area and he intends to tie them more closely into the school. Chicago now gives all graduating students free e-mail for life and they are becoming increasingly involved in advisory committees for the school. "The best salesmen you can get for your school are satisfied alumni," Prof Hamada points out. "Harvard is the very best at this."

Recruiters form a further plank of Prof Hamada's reforms. He argues that corporate recruiters should expect to be treated by a business school with the same degree of professionalism as they would expect from their corporate suppliers or clients. One concern is the allocation system for recruiters who want to present their company to students on campus.

Some slots are clearly more prized than others, so Prof Hamada has set one of his brightest economists the task of devising a way of allocating the slots. An announcement on the formula will be made on December 1 next year.

From a purely academic point of view Prof Hamada has split the position of deputy dean for the MBA so that one person can deal with the full-time programme and another with the part-time programme.

A major curriculum review has been completed and special focus has been put on general management. As well as broadening the teaching base, Prof Hamada hopes this will bring in students from a wider range of backgrounds, especially women. "We have to get more women to apply," he says. "We are very discipline-based and this attracts a greater percentage of people with science and engineering degrees. That can be changed."

There is now only one required course on the MBA, leadership, which the students study in their first year. Students then have to take courses in specific subject areas but they can choose the degree of difficulty: if it is a subject they know well they can take a high level course; if not, they can take a base level course.

Students who want to go into finance are free to take all their subject in that area, says Prof Hamada: "We treat our students as adults."

Business women learn how to take Czechs

IN THE CLASSROOM

Last month in the Czech management centre in Celakovice, 35 managers could be heard calling out their names. It was not part of some spiritual experience but a voice training exercise run by Noemi Zarubova, dean of the local Academy of Music, who was persuading conference participants that personal presention is critical to business success.

This was not the only unusual aspect to the four-day event. All tha participants and most of the speakers were women. The conference itself was organised by four women, as a project for their MBA degree at IMD in Lausanne.

All MBAs at IMD have to complete a team initiated enterprise (Tie) project to graduate from the one-year programme. The four, Jenny Campbell and Julia Thomas from the UK, Liz Holland from Australia and Valerie Binner from Sweden, decided soon after they started their course in January that they wanted to form a group to see through a project that would help women entrepreneurs from eastern Europe.

By Fabruary they had decided to concentrate on the Czech Republic and by April, baving sounded out business women there, had ditched their original plan for a conference on bow to export to western Europe in favour of a conference on fundamental business issoes. Tax managemeot, financing and international alliances were among the list of topics.

The biggest problem was the language says Ms Binner. "We had to have everything – the invitations, the programme – translated into Czech. And we had to find the right software to do thet."

The second difficulty was how to organise things in the Czech Republic – where to bold the conference, for example. Then says Ms Binner, there was the problem of finding "quality" speakers.

The Business and Professional Women's Association in the Czech Republic helped the four to develop contacts. Ms Binner says one thing they learned was "the power of networking". Otber useful lessons were what makes a successful woman entrepreneor, and how to do business in the Czech Republic.

"We managed to pull this off in the middle of a very busy year. We learnt that if you really want to do something you can make the time to do it," she concludes.

The Tie projects completed at IMD can range from the sublime to the ridiculous. This year, for example, one group sent radio equipment to indians in remote areas of Mexico; another organised whisky and wine tasting for their peers.

DB

NEWS FROM CAMPUS

Consultants' masterclass

The link between graduate business school students and consultancies is legendary, but where do consultants go if they want to find out the latest management theories?

The consulting arm of Price Waterhouse has opted for Templeton College, Oxford, where the partners will attend a series of masterclasses from December.

The masterclasses will look at the latest research in management practice and will be taught by both Templeton professors and visiting faculty. Topics include globalisation, shareholder value and the impact of technology.

Price Waterhouse chose Templeton because of the depth of its research and its contacts with faculty at business schools worldwide.

Templeton: www.templeton.ox.ac.uk

Wired for learning

Students at the University of North Carolina at Chapel Hill will be able to take part in a pilot course in microelectronics via the internet from next spring.

The course, devised by Robert Connolly, associate professor of finance and economics at the Kenan-Flagler business school, will combine documentary-style television programmes with internet-based teaching.

Each week the undergraduate students will watch a one-hour lecture, delivered by broadcast, cable or videotape, and then participate in a two-hour classroom session via the internet. Students will travel to the university to sit mid-term and final examinations.

The internet campus will be provided by University Access, a distance learning company in Los Angeles. The organisation was co-founded by Alec Hudnut, himself a graduate from UNC-CH.

UNC-CH: US, 919 962 1134; University Access: www.universityaccess.com

Mysteries of the east

Guides to business schools in North America and western Europe are plentiful, but it has always been difficult to find a guide to business schools elsewhere. Now the Central and East European Management Development Association has produced a revised directory of the best 32 schools in 10 countries in that region.

The guida gives information on the school, courses available and course fees. It costs $8 (£4.90).

Ceeman: Slovenia, 64 221 761

Kanter takes the stage

Rosabeth Moss Kanter, the internationally known management expert and Harvard professor will give a special presentation in London to tha Associatioo of MBAs on November 19.

The morning meeting, *Business and Organisational Strategy for the 21st Century*, is open to members of the association and guests. The price, £90 and £115 respectively, includes a copy of Prof Kanter's latest book, *Rosabeth Moss Kanter on the Frontiers of Management.*

Association of MBAs: UK, (0)171 837 3375

Information for News from Campus should be sent to Della Bradshaw, FT, Number One Southwark Bridge, London SE1 9HL Tel: 44 171 873 4673 Fax: 44 171 873 3950

BUSINESS TRAVEL

Travel Update · Roger Bray

Laptop limits

Business travellers face a ban on the use of laptops while flying through German airspace. Passengers tempted to ignore it could be fined up to DM100,000 (£34,364) – or even jailed. But the wheels of legislation grind slowly. Although the Bonn government wants to remove any risk that these and other electronic devices might interfere with aircraft control systems, its proposal looks unlikely to become law until late next year. Concern has been heightened by a pilot's report that a passenger using a video camera interfered with crucial landing equipment as he approached an airport this year. Meanwhile Lufthansa continues to insist that certain equipment, including laptops with combined printers, cordless mice and CD-Rom units, are switched off in flight.

First for Hilton

A new hotel is to be built at Copenhagen airport at a cost of about £40m. Operated by Hilton International, it will be the chain's first venture into Scandinavia. Scheduled to open in 2000, the 358-room hotel will have a pool, fitness centre and meeting rooms with a capacity for 300 people. It will also have access to the terminals and the airport's planned rail station, which is due to open next year with trains running to the city centre in nine minutes.

Ticket-free travel

Ticketless travel is gradually spreading to more international routes. Singapore Airlines is planning to introduce it on flights to Hong Kong, the US, Australia and the UK during its 1998-99 financial year. The airline has already launched ticketless travel on services from its home base to Kuala Lumpur and Penang, enabling passengers to use credit cards to book and pick up boarding cards.

Snooze in the sky

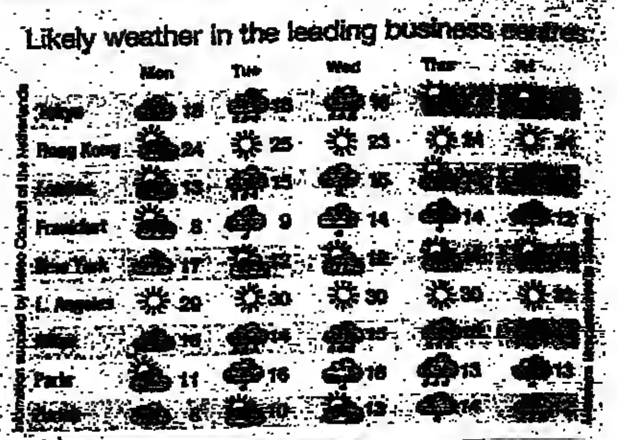
Beds on aircraft have always looked an attractive marketing tool but airlines usually find something more productive to do with the space. They have usually contented themselves with reclining first class seats. With jets soon able to fly for 20 hours non stop – and with lower decks that can be converted into sleeping areas – beds are back on the agenda. Virgin Atlantic has decided to fit them on its Airbus A340-600s, though it is expected to offer them initially on non-stop flights from London to South Africa. Boeing is also considering installing 40 beds on its forthcoming 777-200X.

Swing a free ride

Earn free flights while perfecting your swing. Members of American Airlines' frequent flyer programme can pick up miles by taking golf lessons. If they sign up for three days of lessons at the Nicklaus/Flick golf school, they will earn 5,000 miles – plus 15,000 if they attend before May 31. That is enough for a return ticket between London and Venice. Lessons are available at various US courses and in the UK at Carden Park, Chester, where another 1,000 miles can be earned on a one-day "faults and cures golf school clinic".

Finally. . .beware

Keep a tight grip on your wallet and laptop at Johannesburg airport. The UK foreign office warns that pilfering is rife, particularly to the baggage and immigration areas.



CLUB CLASS

BA trials customer 'tags' to cut delays, says **Roger Bray**

Smart cards help track passengers

British Airways is tracking passengers electronically in an effort to combat flight delays. The aim is to alert airport staff earlier when passengers are likely to arrive late at the gate, reducing the risk that pilots will miss crucial take off slots.

In a three-month trial, customers checking in at the airline's Victoria Station terminal in central London, before catching trains to Gatwick, are being issued with smart cards which incorporate chips carrying information similar to that printed on their boarding passes.

A radio aerial near passport control in the airport's North Terminal automatically reads the cards, so that staff know whether the travellers have entered the departure lounge.

The airline claims it is the first in the world to use such technology. Its experiment is part of a £35m, five-year drive to improve punctuality.

BA is concerned that delays, particularly at Heathrow, are deterring customers and hitting revenue. A recent report by independent management consultants urged a number of improvements, including closer liaison and harmonisation between departments.

BA says around six per cent of flights are delayed either because travellers are late getting to the gate - or fail to turn up altogether. At busy times, missing a slot because of a single customer can force an aircraft full of passengers to sit on the tarmac for 30 minutes or more as their aircraft slips down the queue for take off.

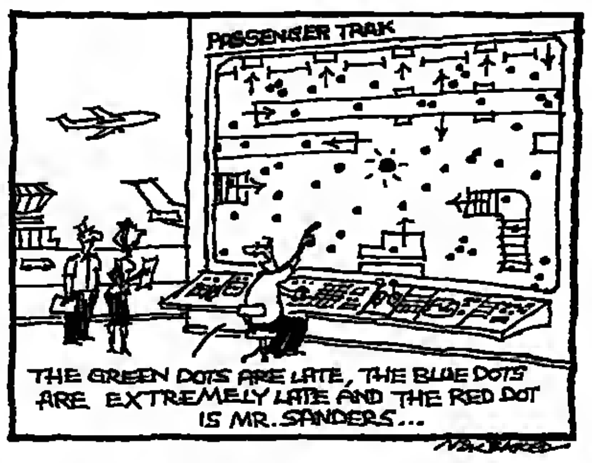
Victoria Station was chosen for the test - a joint project with electronics company Phillips - because the rail journey increases the risk that passengers will go missing.

If the idea is a success, it is likely to be extended to cover travellers checking in at airports. Heathrow, where BA's operation is split between two terminals, is an obvious candidate.

BA says the test will show whether customers find it acceptable. In the first week of the trial around 500 passengers were supplied with cards and their reaction was said to be "very positive".

In this embryonic form, however, the system is unlikely to bother them. They need never handle the cards, which are placed in their ticket wallets and retrieved at the gate for re-use.

The airline insists it will not consider any wider application for the cards until the current test ends in January.



But the possibilities are extensive. They could, for example, help staff head off hold ups which occur while bags, checked in by passengers who then fail to show up at the gate, are taken off the aircraft.

They could even be used to track passengers' movements in the terminal, showing how much time and money they spend in shops, for example, and raising questions of privacy.

The launch of the system comes at a time of worsening delays. Recent statistics from the Civil Aviation Authority showed that the proportion of scheduled flights getting away on time at UK airports fell from 80 per cent in the second quarter last year to 74 per cent in the equivalent period this year. "On time" is qualified as early to a maximum of 15 minutes late.

With air traffic continuing to grow, pressure on runway capacity intensifying at many large airports - and environmental resistance making it hard to build new ones - such efforts to cut out avoidable delays will assume ever greater importance.

Airline takes the controls at City

Lufthansa has assumed full control over its operations from the London City airport. The airline's flights from London City to Frankfurt were previously operated by Business Air, a small airline with a very limited fleet.

Now the flights will be operated by Lufthansa's own AVRO RJ-85 aircraft. The jet will have a single "city class" configuration with five seats a row.

Lufthansa said the takeover of the London-Frankfurt operation was part of a policy that recognised the increasing importance of the City airport not only for travel between London and Frankfurt, but also for connecting flights from Frankfurt.

Lufthansa operates three flights a day from the City to Frankfurt during the week and an evening flight on Sundays.

It will soon introduce a return and through check-in facility at the City airport for transit passengers, and might also install electronic self-check-in machines next year.

Arkady Ostrovsky

Living in fear of frequent flying

Many families suffer from the absences of an executive spouse, says **Farrol Kahn**

One executive recently worked out that he had made 107 business air trips last year. His territory includes eastern Europe where he shuttles between Moscow, Budapest, Bucharest, Warsaw, Zagreb and Belgrade.

In five years he and his family moved five times – from Switzerland to west Africa, central Africa, the Middle East and eastern Europe.

For most frequent flyers this is perhaps normal, but for outsiders it seems like a glamorous lifestyle which they aspire to or envy. The reality is different. Every time these global players take to the air, the lives they leave behind can unravel.

The rapid and unrelenting cycle of partings and reunions can lead to families suffering from the Intermittent Spouse Syndrome (ISS), causing psychological problems for some frequent flyers and their families.

A pattern of symptoms, including anxiety, depression, sexual difficulties and sleep problems, was recognised in an RAF study and in another on the wives of offshore oil rig workers. The main cause was the absent spouse dislocating the familiar pattern of family life and putting great stress on the remaining spouse.

There are three recognised ways in which people respond to a frequently absent spouse.

First, there is the wife or husband who finds it difficult to adjust to the spouse's comings and goings. They feel anxious, lonely, depressed and incomplete during their absence and will count the days until they return.

In the second category, the non-travelling spouses maintain the same lifestyle irrespective of these comings and goings. They learn to cope by extending their own interests and enjoying the freedom and responsibility of being left in charge.

The third way is for the at-home spouse to resent the other's absence and then the return. They feel angry that their needs are neglected.

Few families do not have arguments when the absent spouse returns. Executive wives, for example, often resent the additional pressure of being expected to drop everything and entertain important clients on the husband's return.

Research conducted by the World Bank on its employees who travelled frequently found an increase in psychological disorders. Dr Bernard Demure, director of the bank's health service, heard complaints of depression, nervous anxiety and sleep disturbance.

"We first attributed these symptoms to jet lag, but we realised that other significant factors were involved. The three main influences are separation from home and family, workload and lack of back-up abroad."

Among 500 frequent flyers surveyed by Hyatt Hotels, 18 per cent said their absences had had a negative impact on their marriages and 68 per cent admitted they would happily forgo the trips.

The irony is that despite being cosseted by business class travel and generous expense accounts, frequent flyers are often suffering from the same problems as their families back home.

Farrol Kahn is Director of the Aviation Health Institute

ARTS

OPENINGS

LONDON
The 41st London [illegible] opens at the [illegible] Square on [illegible] performance of [illegible] *Keep the* [illegible] adapted from [illegible] novel, [illegible] and Helena [illegible] festival runs until [illegible]

The Kirov Opera, under [illegible] director Valery [illegible] Theatre Royal, Drury [illegible] Sunday for a single [illegible] of *Boris Godunov* [illegible] season in Paris.

Holbein's newly [illegible] painting of [illegible] the court of [illegible] VIII [illegible] the centrepiece of an [illegible] at the National [illegible] the 500th [illegible] artist's birth, [illegible] and miniatures by [illegible] included in [illegible]

[illegible] and how he developed [illegible]

STOCKHOLM
[illegible] Stockholm's Opera House, [illegible] dark and [illegible]

alongside his own paintings, his extensive collection of French impressionists – scattered across the world after the Nazis' rise to power – will be partly [illegible] in this exhibition, which runs till mid-January.

NEW YORK
Marco Polo, an opera with music by Tan Dun (above) and a libretto by Paul Griffiths, receives its US premiere at New York City Opera on Saturday. The composer conducts, Martha Clarke is the director and the sets are by Debra Booth.

BERLIN
The latest branch of the Guggenheim Museum is Deutsche Guggenheim Berlin, which opens its doors on Unter den Linden on Friday.

The inaugural exhibition is devoted to the Paris series paintings of Robert Delaunay, dating from 1910-12. The exhibition will move to New York in January.

GENEVA
"Mitridate", Mozart's rarely staged opera seria, is currently the choice of Switzerland's two leading opera houses. Less than three weeks after Zurich unveiled a production conducted by Frans Brüggen, the Grand Theatre in Geneva is mounting a different staging with Donald Kaasch in the title role and Dagmar Peckova as Farnace. The first night is on Thursday at the Forces Motrices.

A maverick with an Eskimo touch

Filmmaker Henry Jaglom can be bad, but when he is good he is wonderful, writes **Nigel Andrews**

Why does filmmaker Hanry Jaglom keep his hat on in his Sunsat Boulevard office? It's a pale, floppy, pork-pie number and it shades his capricious middle-European features as if designed to keep a lid on eccentricity. Perhaps he is afraid that if he took it off people would see the escaping thoughts of a 55-year-old movie maverick with one of the quirkiest minds in independent cinema.

Jaglom made *Sitting Ducks*, *Con She Bake a Cherry Pie?*, *Someone to Love* (that inspired all-star symposium with Orson Welles, Sally Kellerman and others rattling on about the meaning of life) and the new *Last Summer in the Hamptons*, which opens in London in two weeks.

He is so appalled by Britain's failure to show the two films he made before *Hamptons* – *Eating* and *Venice Venice* – that he gives me video copies of each. When I run them later in England, they are unwatchable. This says everything about Jaglom's career. When he is bad, he is bad. When he is not, he is wonderful.

Last Summer in the Hamptons is in the second category. A group of endearingly batty theatrefolk gather in a Long Island mansion where they quarrel, fall in love and exchange psychobabble. Jaglom doesn't need to be told the film is Chekhovian: the group is actually *rehearsing* an open-air production of *The Seagull*.

"It's a tribute to the madness of actors, plus a clear look at their narcissism, manipulativeness, petulance, childishness." Jaglom should know, he is married to an actress, Victoria Foy, whose bizarre animal-impersonating exercises are a comic highlight of the film.

"She showed me her baby seal, her eagle and so on at home, and then got mad at me for using them in the film. She decided I was ruining her career. But the audiences loved them."

They loved most of this affectionate fresco of American life on the artistic fringes. Jaglom has been making his scat movies about life and Bohemia for a quarter of a century. His characters are human spindrift, thrown about by a world thay try to rationalise even while beset by unreason: by desire and need, by creativity. The films have been compared to Woody Allen, though often, Jaglom acknowledges, to his own disadvantage.

"New York critics attack me for seeming to engage in psychobabble rather than making fun of it. But I'm compassionate about these people whose needs are so strange and big that they engage in these weird systems of thought. I don't want to wink and say, 'Look how silly they are'. I'm trying to be subtle."

The best Jaglom works combine good talk with good plot. Movies like *Sitting Ducks* (bank robbery with self-analysis) and *Always* (acidly sketching a dissolving marriage) brilliantly vindicate his style of improvised, collaborative human comedy.

"Actors are more than just faces, bodies and voices, they're minds and memories. My method came out of dissatisfaction with a scene in an early film (*A Safe Place*) involving Jack Nicholson and Tuesday Weld. On the sixth take I said, the script's not working, say your own words. It worked, and after that I threw away the scripts."

It's hardly surprising that Jaglom studied under Lee Strasberg, as an actor, or that his first bout of career rivalry was with another famous Method alumnus. "I anditioned for *The Graduate*. They called me back again and again; everyone said how brilliant my readings were. Then I heard that this kid I knew in New York had got the part, Dustin Hoffman."

Jaglom promptly decided to direct his own films. That way he could cast himself, or his brother (the funny, querulous Michael Emil), or his friends, like Welles, Nicholson, Dennis Hopper and Karen Black, tha last three recruited after Jaglom did a stint as editor and adviser on *Easy Rider*.

His greatest talent as a filmmaker – and as a film enabler in the tight-money world of independent cinema – is no doubt the one handed down through his Russian-Jewish ancestry. Chutzpah. "My father ran tha economy of Danzig. When Himmler tried to make him an honorary Aryan he knew it was time to leave. I was born in London, and soon we came to New York, where I saw movies and would have to explain American culture to my parents – what a 'gun moll' was!"

Forty years later, Jaglom is re-infusing Russian culture into his parents, or at least their home. The neo-Chekhovian house in *Last Summer in the Hamptons* is theirs, though for the film Jaglom peopled it with his own fantasy screen family. This included ona great, eccentric actress-teacher, the late Viveca Lindfors, and one vatic stage director, Andre Gregory (title hero of *My Dinner With André*). "The part is a send-up of Andre," Jaglom says, "of this esoteric artist who takes four years to put on a play that 12 people then go to see."

Jaglom would also have cast, if he could, his close friend Orson Welles. Welles and Jaglom became one of the great offscreen double acts in Hollywood: the younger filmmaker spent years trying to push the older, legendary one back into work.

"I spent so much energy trying to make him happy. *I lied to him*: I haven't said that before to anyone, but I did. I'd tell him that So-and-So was really interested in receiving a script from him when they weren't, hoping it would force him to do the work that would get the interest.

"He was a wonderfully vulnerable, complex, rich, sweet person. Wa'd have lunch twice a week and he'd be very depressed, but in public he'd do what he called his dancing bear act. Somebody would come over to the table and he'd say 'Hell-o' – deep Orson voice – and I'd kick him under the table. He'd later say, 'Why did you kick me?' I said, 'You're painting yourself into a corner again. These people all think you're some intimidating ogre and you're this little weak pussycat. You're creating this mythology that's trapping you.'

"Nobody knows this, but he carried bad reviews of *Citizen Kane* around with him all his life. Mayba there were three: Jorge Luis Borges wrote one. Ha *memorised* them. Why? Perhaps to confirm to himself some sense that he was not what everyone thought he was."

Henry Jaglom: 'It's a tribute to the madness of actors'

Welles left a message at 3 o'clock ona morning on his friend's phone, asking him to call with news of Jaglom's mother who was ill with cancer. Jaglom rang back a little later, bnt Welles had died.

He left some of his finest late testaments in Jaglom's films, as the magician in *A Safe Place* or tha philosopher-celabrity in *Someone to Love*. Welles liked Jaglom, but marvelled a little uncomprehendingly at his movies.

"Ha told me, 'Henry, you're like an Eskimo. I saw this film about an old Eskimo carving a giant walrus tusk. And the documentary filmmaker goes up and says, 'What are you making?' And the perplexed Eskimo says, 'I don't know, I'm trying to find out what's inside.'

"'You're like that,' Orson said to me. 'You're carving away at men, women, America, our whole culture – trying to find out what's inside.'"

Theatre

Too many notes

Michael Cashman makes his first appearance in the title role of Anthony Clark's Birmingham production of *Julius Caesar* standing on a plinth, impersonating a statue to himself; as Roman plebeians wrangle with the tribunes, he slips off unobtrusively. Not terribly imperious conduct; but this is a dictator who – until one reads the programme notes about the soothsayer's method of divination by interpreting patterns of light bouncing off a shiny object – appears literally frightened of his own reflection. Elsewhere, Cashman plays Caesar as larger than life; he uses the full range of his voice in terms of pitch, volume and timbre... but often in the same sentence, with the result that at times he seems almost to be singing his lines.

Director Clark seems determined to leave no theme in the play un-alluded to. Patrick Connellan's design centres upon "an anatomical lecture theatre, a parliament, a debating chamber... a place to examine the 'body politic'." Julius's near-divinity and imminent kingship are encapsulated in a rousing chorus of that well-loved hymn, "All Hail The Power Of Caesar's [sic] Name", ending "Crown him Lord of all".

The conspirators are particularly young, which makes a nonsense of a number of lines, including the comment about her "once-commended beauty" by Brutus' wife Portia (Bonnie Engstrom, plainly still in full flower), but does create the sense of a junior officers' coup. A curious stroke of casting has led to Cassius being played by James Dreyfus, hitherto best known for his West End lead in *Eurovision* and his television role as PC Goody in *The Thin Blue Line*, neither part fraught with macho menace. But I was surprised by the control of his performance, although he remains a little over-keen to lurk conspiratorially or quiver that bit too much in high passion.

The first world war-era military uniforms bolster the trenchant impression that, like that conflagration, the civil war arose in large part because a number of key players regarded it as inevitable. Overall, Clark wants it all; his intelligent production does not aim to answer questions, but often it does not clearly raise them, simply tipping its hat in their direction. As the Emperor of Austria rebukes Mozart in *Amadeus*: "Too many notes."

Ian Shuttleworth

Birmingham Repertory Theatre until November 22 (0121 236 4455).

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

DANCE
Het Muziektheater
Tel: 31-20-551 8911
● Lander-Graham-Marin: National Ballet programme of four 20th-century works – Etudes, Lamentation, Embattled Garden and Groosland; Nov 3
● Nederlands Dans Theater I: programme comprising Bella Figura, by Kylián, and new works by Naharin and Obarzanek; Nov 4, 6, 7

■ BRUSSELS

OPERA
La Monnaie Tel: 32-2-229 1211
● La Stellidaura Vendicante: by Francesco Provenzale. New production directed by Philippe Sireuil and conducted by Alessandro de Marchi; Nov 4, 5
● Werther: by Massenet. Concert performance conducted by Wladimir Jurowski, with a cast including Alison Hagley and Jennifer Larmore; Nov 4

■ BERLIN

CONCERTS
Philharmonie
Tel: 49-30-2548 8354
Berlin Philharmonic Orchestra: conducted by Seiji Ozawa in works by Dutilleux and Berlioz; with tenor Frank Lopardo, the Ernst-Senff Choir and the Berlin Boys' Choir; Nov 6, 7, 8

■ CHICAGO

EXHIBITIONS
Art Institute Of Chicago
Tel: 1-312-443 3600
Renoir's Portraits: Impressions of an Age. Around 65 paintings spanning the artist's career, of subjects including Claude Monet and Madame Renoir. The show has been seen in Ottawa and will travel to Texas; to Jan 4

■ LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
● London Symphony Orchestra: conducted by Michael Tilson Thomas in Mahler's Symphony No. 7; Nov 6
● The Royal Opera: The Pilgrim's Progress, by Vaughan Williams. Concert performance, conducted by Richard Hickox; Nov 3

Royal Festival Hall
Tel: 44-171-9288800
London Philharmonic Orchestra: conducted by Ivan Fischer in works by Mozart and Bruckner. With clarinet soloist Sabina Meyer; Nov 5

EXHIBITIONS
National Gallery
Tel: 44-171-839 3321
Making & Meaning: Holbein's Ambassadors. This recently cleaned double portrait by Hans Holbein the Younger pictures two French ambassadors to the court of Henry VIII in 1533. Presented alongside are drawings and miniatures, and objects relevant to the painting's political and religious background; from Nov 5 to Feb 1

National Portrait Gallery
Tel: 44-171-306 0055
Sir Henry Raeburn (1756-1823): previously seen in Edinburgh, this exhibition of some 60 paintings includes the major portraits belonging to the National Gallery of Scotland as well as loans from abroad; to Feb 1

OPERA
London Coliseum
Tel: 44-171-632 8300
● From the House of the Dead: by Janáček. New English National Opera production, conducted by Paul Daniel (Brad Cohen from Nov 11) in a staging by Tim Albery. The programme is completed by Twice through the Heart, by Mark-Anthony Turnage, conducted by Nicholas Kok; Nov 4, 7
● Tosca: by Puccini. English National Opera production, conducted by Noel Davies in a staging by Keith Warner. Rosalind Plowright sings the title role; Nov 5

Shaftesbury Theatre
Tel: 44-171-379 5399
The Royal Opera: The Merry Widow, by Franz Lehár, in a new translation by Jeremy Sams. New production by Graham Vick, with designs by Richard Hudson; Nov 4, 5, 6, 7, 8

THEATRE
Barbican Theatre
Tel: 44-171-638 8891
Henry V: by Shakespeare. Ron Daniels directs this Royal Shakespeare Company production, with Michael Sheen in the title role; 4-22 Nov, after which it will tour the UK

The Pit, Barbican Centre
Tel: 44-171-638 8891
Romeo and Juliet: by Shakespeare. New production directed by Michael Attenborough and designed by Robert Jones. Ray Fearon and Zoe Waites are the lovers; to Nov 15

■ LOS ANGELES

CONCERTS
Dorothy Chandler Pavilion
Tel: 1-213-365 3500
● Los Angeles Philharmonic: conducted by Roger Norrington in works by Brahms; Nov 5
● Los Angeles Philharmonic: conducted by Roger Norrington in works by Berlioz, Chopin and Smetana. With piano soloist Emanuel Ax; Nov 6, 8

EXHIBITIONS
Museum of Contemporary Art
Tel: 1-213-6266222
Cindy Sherman: retrospective tracing the New York-based artist's development from the 1970s to the present; to Feb 1, after which the exhibition will travel to Chicago, Prague, London, Bordeaux, Sydney and Toronto

■ NEW YORK

CONCERTS
Lincoln Center
Tel: 1-212-721 6500
New York Philharmonic: conducted by Charles Dutoit in a programme of works by Mozart, Barber and Tchaikovsky. With soprano Barbara Hendricks; Avery Fisher Hall; Nov 5, 6, 7, 8

DANCE
Joyce Theater
Tel: 1-212-242 0800
Siobhan Davies Dance Company: double-bill of Bank, Davies' most recent work, choreographed to Matteo Fargion's percussive score, and the award winning The Art of Touch. This week-long season is the conclusion of an autumn tour, and part of a festival of British contemporary dance; from Nov 4 to Nov 9

OPERA
Metropolitan Opera, Lincoln Center Tel: 1-212-362 6000
● Don Giovanni: by Mozart. Production by Franco Zeffirelli, given its first performance of the season on 5th, when Amanda Roocroft makes her Met Opera debut; Nov 5, 8
● Il Barbiere di Siviglia: by Rossini. Revival of a staging by John Cox; Nov 8
● La Cenerentola: by Rossini. Met Opera premiere. New production conducted by James Levine in a staging by Cesare Lievi, with designs by Maurizio Balò; Nov 3, 7
● Tannhäuser: by Wagner, in a staging by Otto Schenk; Nov 4, 8

■ PARIS

CONCERTS
Salle Pleyel
Tel: 33-1-4561 6589
Orchestre de Paris: conducted by Semyon Bychkov in works by Schnittke, Mendelssohn and Strauss. With violin soloist Viktoria Mullova; Nov 5, 6

DANCE
Opéra National de Paris, Palais Garnier Tel: 33-1-43439696
Paris Opera Ballet: mixed programme – Soir de fête by Staats, L'Arlésienne by Petit, and La Symphonia fantastique by Massine; Nov 6, 7, 8

EXHIBITIONS
Musée Carnavalet
Tel: 33-1-4272 2112
Paris and the Parisians in the time of Louis IV: more than 300 engravings, which together create a vivid impression of 17th century Paris. Including portraits, images of the city and its monuments, as well as proverbs, allegorical works, and almanacs; from Nov 5 to Jan 18

OPERA
Opéra National de Paris, Opéra Bastille Tel: 33-1-44731300
Nabucco: by Verdi. Conducted by Pinchas Steinberg in a staging by Robert Carsen; Nov 4, 7

■ TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV
Monday to Friday, Central European Time:

● **NBC Europe**
07.00: *FT Business Morning*
10.00: *European Money Wheel*
Nonstop live coverage until 15.00 of European business and the financial markets.
17.30: *Financial Times Business Tonight*

● **CNBC**
08.30: *Squawk Box*
10.00: *European Money Wheel*
18.00: *Financial Times Business Tonight*

COMMENT & ANALYSIS

Needing tough treatment

Gerard Baker and **Sander Thoenes** on the escalating crisis in Indonesia

The sheer scale of the IMF package agreed last week with Indonesia, and the decision by the US administration to get directly involved with it, are indications of how seriously the leadership of the industrialised world takes the economic, financial and political risks of the continuing turmoil in south-east Asia.

When the first news of the IMF deal for Indonesia began to leak out a while ago, the scale of the support was put at $4bn (£2.5bn). By the time the overall package was announced on Friday, that had risen to $37bn, and will be second only to the Mexican bailout of 1995 in overall scale.

What is more, the US involvement represents a marked change from its recent approach. In the summer, the administration did not take part in a similar IMF programme of support for Thailand, where the current crisis began. There seems little doubt that in the three months that have elapsed since the Thai negotiations, the stakes from the escalating crisis in the region have risen. For Indonesia, therefore, the US agreed to contribute $3bn of supplementary financing - money to be drawn only if the main IMF package fails to restore stability.


President Suharto: appeared powerless

What explains this heightened concern in Washington?

Officials are clearly much more troubled than they have been at any point since the regional crisis began earlier this year about the risk of "contagion". Although the immediate economic impact from the turmoil is still not generally expected to be large, there are increasing worries about the financial turbulence and about the potential risk for US security policy in the region.

And the Indonesian case is a clear example of the kinds of fears that are on the minds of US and other international policymakers

If the combined burdens of an economic slowdown, falling asset prices and a devalued currency (which raises the cost of debt servicing by corporations), force Indonesian companies into severe financial difficulties, there would be some big losers.

Japan is by far the largest investor, with $38.7bn committed over the past 30 years by Indonesian estimates, and many Japanese banks are more heavily exposed to Indonesia than to any other country outside Japan. Both Singapore and Malaysia hold much of the capital funnelled abroad by Indonesian conglomerates, and some of their companies have moved shop to Indonesia to set up palm oil plantations and buy companies which became relatively cheap after the rupiah's depreciation of the last few months.

But while the risk of financial chaos is the main spur for action, there is also concern about political stability in the region, and little doubt that the two are connected. South-east Asia continues to play a large role in US global security interests. On Friday, Robert Rubin, the US Treasury secretary, said: "Financial stability around the world is critical to the national security and economic interests of the US".

Again, the Indonesian package is a critical case in point. There is a growing recognition that President Suharto's bold on his own people is not what it used to be and he could use a little help from his friends abroad. The army appears loyal, the parliament has been purged of critics and the dominant business conglomerates still feel their best bet for economic stability is the current regime. But many ordinary Indonesians are restless.

The depreciation of the rupiah has caused a sharp rise in prices for staple foods such as rice. High interest rates prevent many from buying low-cost housing and even motorcycles. Their savings may be frozen in illiquid banks. Thousands have lost their jobs in a country where unofficial estimates of under-employment go up to 40 per cent of the workforce.

To make matters worse, Mr Suharto has appeared powerless against massive fires that have lit peat bogs, forests and coal deposits, sending a thick haze over much of south-east Asia. Students have clashed with police in various cities in recent weeks, workers have gone on strike and now the government faces the prospect of a rush on the banks.

While few western leaders like to be seen in public with Mr Suharto, they also know that the alternative may be chaos. The first riots that brought down Sukarno, his predecessor, started with the devaluation of the rupiah.

One final key to understanding the importance of the Indonesian IMF agreement is that it may represent a blueprint for the kind of measures US and IMF officials believe are necessary to restore financial stability in the region. Although details are still sketchy, the IMF deal may indicate that the Jakarta government is committed, and politically strong enough, to enforce some painful measures.

The rupiah has lost a third of its value since August and the Jakarta Stock Exchange index has dropped 40 per cent. Dozens of leading conglomerates are believed to have turned illiquid by a combination of sharply higher domestic interest rates and the appreciation of their interest payments for hard currency loans.

But Mr Suharto did not hesitate to mop up liquidity by raising interest rates and transferring state pension fund deposits from commercial banks to the central bank in August. He slashed $13bn worth of infrastructure projects, even though this meant that thousands of construction workers are now laid off.

Mr Suharto also appears willing to sacrifice parts of the immense network of patronage that he has built up to maintain power. Some of the banks shut down over the weekend are owned by powerful friends of his, and spending cuts have affected projects controlled by his family and friends.

The IMF plan may, of course, itself weaken further Mr Suharto's political position. But if the US administration and the IMF are to avert their worst fears of financial and political instability in Asia, they know that more governments must be prepared to take some painful medicine.

LETTERS TO THE EDITOR

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Too early to conclude China rules out euro

From Mr Zheng Wufu.

Sir, I refer to James Harding's article "China rejects moving forex reserves to euro" (October 13). Whether, when and to what extent China will hold euro as its foreign exchange reserves depends not only on economic considerations, but also on quite a lot of other factors which affect the reserves' safety, liquidity, yield and so on; not to mention the fact that the assumption that the euro may not be so stable was based only on economic factors, neglecting some other equally important factors such as political willing among European Union countries and strong supportive forces from international societies.

I personally look upon the forging of single currency as a historically significant experiment. It will be firmly supported by international societies and play an important part in the international financial market. Therefore, it is too early to conclude that China rejects moving forex reserves to the euro.

As Richard Portes argued ("The strength in numbers", August 11) both the unprecedented independence of the European Central Bank, guaranteed by the Maastricht treaty, and the higher gross domestic product and share of world trade will provide a promising foundation to prevent the euro from being as soft as some other experts have predicted.

The governor of the People's Bank of China, China's central bank, has signalled that he is giving consideration to actively holding the euro, while officials from the State Administration of Foreign Exchange have made clear that China's holding of the euro would increase in line with the European single market. In my view, these signals imply strongly that the authority will be most likely to adjust the amount and composition of its holdings of foreign reserves accordingly.

This is not to say that China will hold euros immediately after January 1 1999.

Zheng Wufu,
economist,
international department,
People's Bank of China,
Beijing 100800, China

Saudi policy short-sighted

From Mr K. Shilleto,

Sir, It cannot be any surprise that Saudi Arabia neither encourages foreign investment interest in its natural gas nor intends to market abroad itself. Every barrel equivalent of gas backs out a similar amount of crude where markets are established already. Any reduction in its 8m barrels a day crude production also reduces Saudi authority within the Organisation of Petroleum Exporting Countries, which is less influential in gas than oil.

This may be a short-sighted policy. Power generation worldwide is shifting rapidly from coal and oil to gas as a safe environmental halfway house to renewables. Global warming and climate change are realities that even the Saudis must accept and to which they must adapt.

Iran, Abu Dhabi and Qatar, on Saudi's doorstep, are ready to scoop the gas export pool. Saudi gas for export sale must be only a matter of time.

Kevin Shilleto,
oil consultant,
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US employment miracle no surprise

From Mr R. McDowell,

Sir, The US "employment miracle" is a mystery only to supply side economists. Gerard Baker ("Eurosclerosis in focus", October 27) reported the latest findings of US economists that Europe's problem is not labour market rigidities, but weak demand or, possibly, regulatory rigidities in production and capital markets.

But, looking at the economic data, job creation differences in the past five years between the US and Europe are best explained by consumer spending, not gross domestic product, industrial production, size of government, wage growth or terms of trade. No other factor explains falling unemployment or jobs growth so well.

This is not a surprise. Government and large industrial companies continue to reduce their workforces. New jobs are mainly in retail distribution, services and the small firms sector. Consumer spending in the 1990s has been growing twice as fast in the US and UK as in the European Union. The UK, which follows the US economic cycle much more closely than that of the EU, reduced its unemployment rate faster than the US, but with less employment growth. The UK economy might have created more jobs but for low growth among its EU partners. The US and UK are at the peak of their business cycles. The EU is only now coming out of below trend growth, thanks not least to a growing US trade deficit, now over $200bn.

Robert McDowell,
Banking & Securities Industry Consultants,
2A, Gresham Road,
Cambridge CB1 2EP, UK

Greenspan's warnings still on the table

From V. Anantha-Nageswaran.

Sir, I share some of the sentiments expressed in your leader on Alan Greenspan's testimony to the Congress ("Playing it safe", October 30). His "productivity pendulum" had swung around quite a bit in recent months, leaving us wondering as to when he would wield the interest rate axe if the US economy was indeed growing at an unsustainable rate for the whole of 1997.

However, he did not really let his guard down last Thursday. Carefully read, he left most of his warnings of October 8 on the table.

While acknowledging the short-run restraining influence of the recent asset-market volatility, he did mention that the acceleration in productivity, by itself, would not close the gap between excess long-term demand for labour and its supply.

His punch-line came in the end. He almost ruled out any threat to US economic prosperity from the Asian financial disturbances. Therefore, by implication, he did not think that it would have any impact on the conduct of the Federal Reserve Board's monetary policy.

Consequently, the possibility of a Fed rate hike still exists, but perhaps its immediate exercise is less likely than before.

V Anantha-Nageswaran,
Hegarstrasse 4,
8032 Zurich,
Switzerland

The CAP is being reformed cautiously, says **Michael Smith**

The great survivor

Pampered. Uncompetitive. Stubbornly, sometimes violently, opposed to change. That view of European Union farmers is almost universal, outside agricultural communities at least.

Franz Fischler, EU farm commissioner, wants to turn Europe's farmers into entrepreneurs. This summer Mr Fischler unveiled a wide-ranging reform of the Common Agricultural Policy, which provides farmers with Ecu40bn (£28.6bn) of subsidies a year and pays them not to grow crops. "The enormous complexity of the present support mechanisms has left farmers scouring the pages of the official journal of the European Communities instead of responding to market signals," he says.

Mr Fischlar and his fellow commissioners see cuts of up to 30 per cent in "support prices" – paid to farmers regardless of market conditions – as essential if the EU is to realise its ambition of enlargement into central and eastern Europe. But some critics are increasingly worried that the commission has been cowed by the farming lobby into being too timid.

The problem is that the countries queueing to join the EU have vast, but financially poor, agricultural sectors; in Poland, the largest of the aspiring entrants, nearly 30 per cent of the labour force is in farming, compared with 5 per cent in the EU. Extending eastwards the existing benefits of the CAP is ruled out on financial grounds, but the mismatch would cause deep resentment and erect big obstacles to forming a single market.

Even with an EU of 15 countries, an unreformed CAP would balloon out of budgetary control – and bring back controversial food mountains – as productivity and production increased. Already the CAP accounts for nearly half the EU budget. The start of farm talks under the World Trade Organisation in 1999 is also concentrating minds.

Unless the EU cuts the support prices for agricultural goods it is extremely unlikely to be allowed by other countries to expand exports. But will the commission's price cuts and accompanying measures be enough to meet the double dilemma posed by enlargement and the forthcoming trade talks?

The proposals have a role model in the ground-breaking CAP reforms harried through the commission and member states in 1992 by Ray MacSharry, then farm commissioner. The centrepiece was a move away from near-total reliance on price support towards direct income aids which cause less offence at the WTO.

The reforms have achieved a fair degree of success. They have helped cut food mountains to manageable levels and restrained expansion of the CAP budget, which has grown in the last five years but less than would have been the case without reform. Farmers have benefited too, with per capita income up 4.5 per cent a year, according to the commission.

But MacSharry was just a start. The Fischler package would cut support prices of beef, cereals and milk by 30, 20 and 10 per cent respectively and increase income aids further. Farmers would receive more direct income aids in compensation.

The commission also plans to cap payments to individual farmers, 20 per cent of whom receive 80 per cent of subsidies. Countries would be given more authority to decide who receives aid, and the practice of setting aside land for payment would be reduced. A revamped rural policy could provide additional assistance for recreational and environmental schemes in some areas.

The commission dismisses claims by farmers they could lose Ecu8.5bn a year. It expects farm incomes to remain steady and forecasts a CAP budget for the 15 of Ecu48bn in 2006 (1997 prices).

Critics say the commission has missed crucial opportunities. First, it has put no time limit on the direct payments which compensate price cuts. "There is clearly no justification for continuing to compensate fully for previous price cuts for ever," says Michael Tracy, a Brussels-based agricultural economist.

Second, the commission extended the milk quota system until 2006 and rejected drastic price cuts. Stefan Tangermann, an agricultural economist at the University of Göttingen in Germany, welcomes the broad thrust of the commission's overall proposals but says the 10 per cent milk price reduction will do "close to nothing to solve the underlying problems of this sector".

The commission's cautious approach to reform is understandable. The CAP has exercised a deep hold on the European psyche since it was a founding pillar of the European Economic Union in 1958.

The exalted status of agricultural workers was enshrined in the 1957 Treaty of Rome which decreed the CAP should offer them "a fair standard of living". The farm lobby never lets the politicians forget this and it is extraordinarily effective at getting its message across.

"You can usually tell what agriculture ministers are going to say in EU meetings because invariably it is little different to what farm leaders have been saying the week before," says one commission official. "Farmers are well organised and have great unity of purpose and, because they dominate the sparse rural vote, they can decide the government in most EU countries."

Witness Germany. With elections due next autumn both at the federal level and in Bavaria, a farming heartland, ministers are anxious to court rural voters. Jochen Borchert, now agriculture minister but once a leader of the country's farmers' organisation, has said the commission's CAP proposals are unnecessary and Chancellor Helmut Kohl has not challenged that view.

Elsewhere, the farm lobby either has less ability or will to fight reform. Policy makers are giving more heed than previously to environmental and consumer lobbyists, a trend exacerbated by the BSE "mad cow" scares.

The governments of the UK and Sweden say the commission should be tougher; both want the milk quota dismantled and the UK wants a cut over time in payments compensating price cuts. Among other countries few, if any, are as opposed to reform as Germany. In the commission there is growing confidence that a reform package will be agreed, perhaps by the end of next year.

The test for Mr Fischler will be his ability to resist dilution.

If he does agricultural economists say unfettered export of beef and some cereals may become a reality and Mr Fischler's dream of entrepreneur farmers will be nearer achievement. In addition, commission officials say the milk proposals may yet be toughened, either by bigger price cuts or a commitment to ending quotas.

However, reducing compensatory payments – seen by many as sounding the death knell for the CAP – is not a runner. "Member states would simply not accept it," says one official.

That means future headaches for integrating new member states. But for the foreseeable future the CAP remains the EU's great survivor.

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FINANCIAL TIMES
Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700
Monday November 3 1997

Bailing out Indonesia

The $37bn financial rescue package put together by the International Monetary Fund and the World Bank for Indonesia is impressive in its generosity. It is the biggest international bail-out organised since Mexico's $50bn in 1995, and it has been put together in barely three weeks. Seven governments, including the US, Japan, Singapore and China, are chipping in with their own bilateral deals. President Suharto seems to have many friends. But is their medicine right for his country?

Full details of the conditions attached to the loans have not yet been spelt out. The problem is partly a matter of presentation. The outside world needs to know that for such a generous package, tough and measurable conditions have been laid down. They must focus on two key areas of weakness: the over-stretched and under-regulated financial sector; and the lack of transparency in government contracts associated with the business activities of the friends and family of the president. But that is precisely what the government will not want to make apparent to its domestic audience, particularly in the run-up to a presidential election.

On the banking side, the first action has already been taken, with licences being withdrawn from 16 problem banks. That is certainly a step in the right direction, although many of the remaining 224 banks in the country scarcely inspire confidence. It is a signal that others cannot expect to be bailed out indefinitely. But there also needs to be evidence that the supervisory department of the central bank is being overhauled. Far too many companies have been allowed to set up banks and collect deposits for little more than their own private use.

The decision to scrap trading monopolies for important foodstuffs like soya beans and wheat, a long-standing source of political patronage, is welcome. So is the agreement to phase out the tax holidays for the controversial "national car" promoted by Mr Suharto's son, Tommy. That is likely to mean the end of the project, from which Tommy Suharto has obligingly retired just in time to save face.

Other necessary reforms seem to have proved too politically sensitive. The government monopoly on rice imports and distribution is to be maintained, as are hefty subsidies of fuel prices. In the weeks before next March's election, such action might have been political dynamite. Drought, devaluation, forest fires and a series of natural disasters have already created a febrile atmosphere.

The IMF argues that, unlike other countries in the region such as Thailand, Indonesia has the political discipline necessary to carry out tough reforms, within reason. The other explanation for the size of the package is that it will be big enough to prevent any conceivable further runs on the currency. The first assertion, at least, is questionable.

Indonesia has been consistently praised for its sensible macro-economic and monetary policies. But the weaknesses have been at the micro-economic level: in the explosion of ill-regulated banks, and the concentration of business and political power in the hands of a tiny elite, unaccountable to any but the 76-year-old president.

Institutions like the IMF, the World Bank and the Asian Development Bank, not to mention friendly governments, have failed to spell out the dangers of such weaknesses in good time. The markets have identified the political problem. Others should have served notice sooner.

Unpegging

Last week, the Brazilian real narrowly avoided becoming the latest emerging-market currency to fall victim to speculative attack. The week before, it was the Hong Kong dollar. This week's target is anybody's guess. Perhaps it all could have been avoided if Thailand had quietly devalued as soon as its economic difficulties became apparent. *Changing a fixed* exchange rate without precipitating a crisis is a difficult task. But sometimes it must be tried.

There are often sound economic reasons for a country to adjust within a fixed currency regime, or to quit it altogether. A fixed nominal rate can lead to serious misalignments in the real exchange rate. Flexibility in the domestic economy will allow some adjustment. Sometimes, though, the pressure is so great that only a change in the exchange rate can bring the economy back on track.

But however sound the reasons, choosing to devalue or to leave a fixed-rate regime will always carry risks. Maintaining a fixed rate is often a credibility symbol for policy-makers, and changes can cause panic.

Action therefore needs to be carefully planned. Three principles could help. These will not guarantee a smooth transition, but they should increase the chances of success.

First, authorities must be as clear as possible about what they are doing, and why. Endorsement by a multilateral organisation, such as the IMF, could help to ensure that their reasoning is seen as credible.

Second, the effects on the regional economy should be considered. With the greater openness of the world economy has come a strengthening of linkages within regions. One country's policy cannot be considered in isolation. If possible, therefore, currency realignments should be agreed within a regional context.

The third, and most important, principle is that the timing must be right. The worst time to leave an exchange rate peg is when it is under attack. The best time is when the economy is strong, and when the authorities' credibility is high. Policy-makers should be looking to make any changes pre-emptively, just as they should do with monetary policy.

Changing a fixed exchange rate is a risky business. But failing to change a rate which is clearly misaligned can only lead to trouble. Early action, if well considered, can save an awful lot of pain later.

Tory turmoil

Britain's Conservative party lost the general election because it chose to speak to itself rather than to the nation. Obsessed by Europe, the Tories turned their back on the everyday preoccupations of the electorate. Now they seem set on repeating the same mistake in opposition.

The weekend resignation of David Curry, the shadow agriculture spokesman, was the latest in a series of blows for William Hague, the party leader. It follows the departure of Ian Taylor, a Northern Ireland spokesman, and the denunciation of the leader's European policy by the formidable alliance of Michael Heseltine and Kenneth Clarke.

In this matter, Mr Hague is the author of his own misfortunes. Two weeks ago he chose to harden his opposition to the single European currency. Mr Hague insists he will fight the next election on a platform of "saving" the pound – in effect ruling out British participation for 10 years at least.

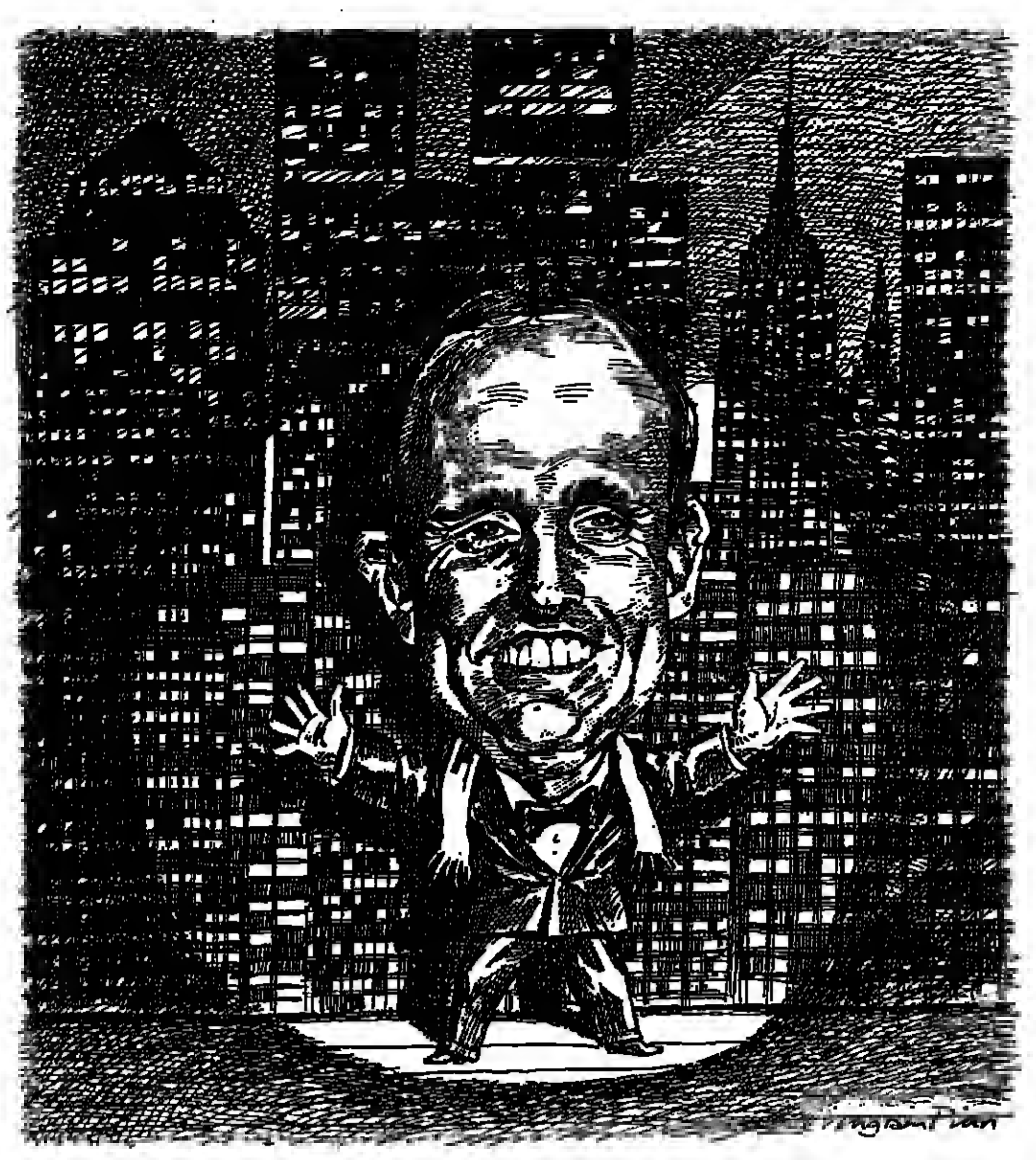
Unsurprisingly, pro-European Conservatives are determined to fight a policy which threatens a damaging breach with business. Mr Clarke wants a cross-party alliance to take Britain into the single currency. Mr Heseltine has put himself at the head of the pro-European forces within the Tory party.

Mr Hague's position is neither principled nor practical. Principled objection to Emu on constitutional grounds would rule out participation forever. A practical approach would leave the position open until the election. Instead Mr Hague has put a bar on entry for an arbitrary period of 10 years. He might contemplate joining in 2007 but would not even consider it in 2006.

Mr Hague says this is the preferred position of the majority in his party. But those with longer political memories than the 36-year-old Tory leader will recall this was precisely the argument used by the left when it seized power in the Labour party during the early 1980s. Only after three defeats did Labour learn that elections are won by parties which reach out beyond their core support. Sadly, Mr Hague seems determined to ignore the lesson.

The mayor who got lucky

Richard Tomkins explains how Rudolph Giuliani has revived New York City with a combination of good fortune and design



For one fleeting moment a few weeks ago, it looked slightly less than certain that Rudolph Giuliani would be re-elected to a second term as mayor of New York City.

A Haitian immigrant named Abner Louima, arrested after a fracas at a nightclub, was taken to a Brooklyn police station. There, police officers allegedly subjected him to an almost unbelievably sadistic assault, pushing a toilet plunger up his rectum and then down his throat. As they brutalised him, one shouted: "This is Giuliani time."

The words were to haunt the mayor during the outcry that followed. Four years earlier, Mr Giuliani ran for office on a law-and-order ticket, and his first term had been characterised by tough police tactics. Now, with the city teetering on the edge of a race riot, the media were asking whether those tactics had gone too far.

It is some measure of how much New York has changed in the past four years that, once the alleged attacker had been arrested, the outcry died down. Although complaints against police brutality have risen, New Yorkers across the political and racial spectrum appear to have concluded that the occasional excess, if appropriately dealt with, is a price worth paying for safe streets.

Tomorrow, New Yorkers go to the polls to decide whether to re-elect Mr Giuliani for a second four-year term. But, to use a local expression, it's a shoo-in: his Democratic opponent, Ruth Messinger, is a nonentity and, barring a last-minute calamity, New Yorkers will return Mr Giuliani by a big majority.

The vote will be Mr Giuliani's reward for presiding over an extraordinary change in New York's fortunes.

Just a few years ago, the city was in the grip of economic and social malaise. The crime rate was notorious: the streets of the poorer suburbs routinely crackled with gunfire, guidebooks advised tourists to have a $20 (£13) bill ready for muggers, and Times Square's boarded-up theatres were patrolled by drug pedlars and prostitutes.

At the end of 1993 Mr Giuliani, who had previously tackled the Mafia and Wall Street insider traders while US attorney for the Southern District of New York, became the city's first Republican mayor in a generation when he narrowly beat the incumbent, David Dinkins.

Before standing for election, Mr Giuliani had spent time studying the "broken window" theory of crime-fighting, which held that controlling public disorder was the key to reducing serious crime. On taking office, he and *his then police chief, William* Bratton, started putting the theory to the test.

The results were startling. As the police cracked down on minor street offences such as aggressive begging, public drunkenness and illegal street vending, the figures for serious crime began to plummet. Last year, the number of murders fell to 984, the first time the figure had fallen below 1,000 in nearly 30 years.

Over a similar period, New York's financial position also began to improve. When Mr Giuliani came to office, the city was facing its worst financial crisis since its near-bankruptcy in the mid-1970s. But Mr Giuliani, who had promised local government reform, cut the municipal workforce by 20,000 jobs to 200,000, and the city ended its fiscal year to June with a $1.4bn budget surplus.

At a personal level, Mr Giuliani has never been held in much affection by New Yorkers. Seen as cold and humourless, he tries to be tough, but often comes across as a bully. A recent article in The New Yorker magazine portrayed him as having been a bookworm at high school and college, the sort of boy who would be picked on. It quoted a critic's description of his high-handed style as "the revenge of the nerd".

Even so, New Yorkers have been able to forgive him almost anything for their city's remarkable turnround.

Crime is down to a level where New York is statistically the safest large city in the US. Tourism is booming, real estate prices are going through the roof, and Times Square, a high-profile symbol of the city's psyche, is undergoing a renaissance.

But how much of this is due to Mr Giuliani? Crime has certainly plummeted in New York, but it began to fall long before he took office. And inconveniently for the broken window theory, other US cities – Houston, for example – have had similar declines in crime without any conspicuous changes in police tactics.

Law enforcement experts say US crime rates have declined for a number of reasons, including the waning of the crack cocaine epidemic and its accompanying turf wars; a dip in the number of males in the population in the crime-prone age range of 16 to 24; and a big increase in the prison population, which has kept more offenders off the streets.

Professor Franklin Zimring, director of the Earl Warren Legal Institute at the University of California at Berkeley, says about half the fall in homicides in New York is probably "just plain regression". In other words, homicides are cyclical, and having reached a high, they are simply reverting to the norm.

Police tactics may have contributed to the other half of the decline, Prof Zimring says, but he doubts whether this has much to do with the crackdown on drunks and vagrants.

"One of the things the police have been doing is turning kids on the street upside down to see if guns fall out," he says. "That's not the broken window theory."

Meanwhile, Mr Giuliani has been lucky with the city's finances, too. Although he came to office pledging to cut the city's chronic budget deficits by "reinventing" local government, the Wall Street boom solved the problem by generating a windfall in tax revenues.

This enabled Mr Giuliani to shy away from radical privatisation or other measures that would have brought him into conflict with the powerful municipal unions.

But the city's financial problems have not gone away. In spite of six years of growth in the wider US economy and the prosperity generated by Wall Street's recent strength, New York's economy is still fundamentally weak. The city has won back only half the private sector jobs it lost in the last recession, and the unemployment rate of 9.3 per cent is nearly twice the national average.

Myron Magnet, editor of City Journal, an urban affairs quarterly published by the rightwing Manhattan Institute, has strong praise for Mr Giuliani's achievements to date.

"New Yorkers have a sense that their city has a future, a sense they really did not have before Mr Giuliani came to office," he says.

But he believes the mayor's highest priority in a second term should be cutting the cost of government – and with it, the high taxes that have driven businesses and jobs from the city.

"The city government is grotesquely too expensive," Mr Magnet says. "And although Mr Giuliani has made some marginal improvements in that, he hasn't made the dramatic improvements that are necessary if New York is to have an economic future that is anything more than continued managed decline."

Still, dramatic improvements may be hard to achieve. After four years of tumbling crime rates and booming Wall Street revenues, Mr Giuliani has been about as lucky as a New York mayor can hope to be: and the risk is, that in a second term, that luck will start to run out.

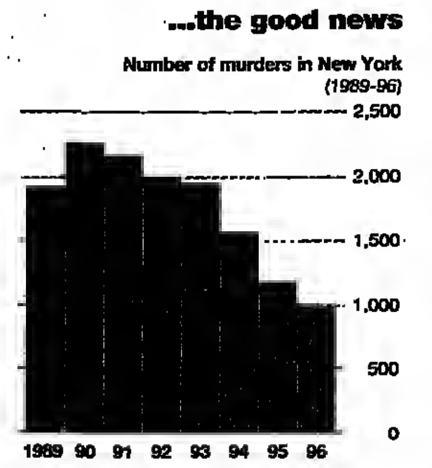
If Mr Giuliani recognises this, it could explain his reluctance to set out his goals for the next four years. His ambitions for reducing the tax burden are hardly those of the zealous reformer. At a recent press breakfast, he said: "If we develop surpluses, we will take some of that money and give it back to the private sector so that the city becomes a better place to establish a business."

Presumably aware of the danger that the crime figures, if cyclical, could start to rise again, he also avoided promising much in the way of further reductions, preferring to talk of "consolidating" the gains that have been made.

Indeed, almost the only tangible commitment Mr Giuliani has made has been to extend the war against crime to a crackdown on drugs. "*Right now, nobody thinks* it's possible to cut down on cocaine and marijuana by 50, 60 or 70 per cent. But it is possible, and we are going to do everything we can to accomplish that," he said.

It is hardly a radical agenda. But as Mr Giuliani pointed out: "During the administration of my predecessor, nobody was coming to New York to see how to do things better. They came here to sympathise with us for the way we were doing things wrong."

Perhaps it is enough if the city, having thrown off its image of failure, can cling to its newly earned reputation for success.



Sources: Bureau of Labor, New York Police Department

OBSERVER

Sunshine summitry

■ It's unseasonably chilly down in the Eastern Med, so Greece and Turkey probably won't bury the hatchet today during a pleasant pool-side chat. But Greek prime minister Costas Simitis and Mesut Yilmaz, his Turkish counterpart, will be trying hard to get some warmth back into bi-lateral relations – even if they have to keep their jackets on.

The two men are due to meet on the sidelines of a Balkan leader's summit being hosted by Simitis at Agia Pelagia, a beach resort in western Crete. A nice spot, sure enough, but will they hit it off?

It is almost 10 years since the last attempt at a Greek-Turkish rapprochement – by Andreas Papandreou and Turgut Ozal, both now deceased. In those days Yilmaz was a callow foreign minister, while Simitis was grappling with the Greek public finances as economy minister. Their charismatic bosses chatted away in private, leaving the underlings no chance to get acquainted.

At least the two men have a language in common: German. Simitis took refuge in Germany from the Greek colonels' junta, while Yilmaz went to university there. And there will be plenty of encouragement from other Balkan leaders. Guests include Serbian boss Slobodan Milosevic, who knows more than most about simmering rivalries.

Ad to go

■ What to make of the sudden departure of Susan Gianinno, chief executive of J.Walter Thompson's New York advertising agency?

One of the most senior women on Madison Avenue, Gianinno joined JWT – part of Martin Sorrell's WPP empire – as general manager two years ago. Her detractors reckon the New York agency's had a poor business record since; the recent loss of the money-spinning Eastman Kodak account certainly didn't help morale.

That said, it's only seven months since Gianinno, a psychologist before moving into advertising, was promoted into the top job. And no-one's saying exactly why the tough-minded 47-year-old is leaving JWT so abruptly.

Spin the wheel

■ Latest head to roll in Amsterdam's Stock Exchange scandal won't be familiar to traders – unless they like to carry on betting after the bourse has closed. Theo van Keulen has quit his job as chairman of state-owned gaming monopoly Holland Casino after getting caught-up in the affair.

Justice officials allege that Van Keulen had a chunky share trading account with Leemhuis & Van Loon, the stockbroking firm at the centre of their enquiries, and shipped funds to Switzerland. He is accused of tax fraud and falsifying documents. Holland Casinos says the management of a gaming establishment must be above all suspicion – so he had to go.

Van Keulen's fate has not been decided yet, but it's a refreshing attitude. Chief suspect Han Vermeulen, joint managing director at Leemhuis & Van Loon, was sacked back in 1993 by James Capel for irregular accounting. But while the Amsterdam exchange audit committee put him on probation, the stockbrokers' association – which controlled the bourse in those days – was happy for him to stay on its management board.

Vermeulen went on to buy a stake in Leemhuis – and the rest, as they say, is history.

Kwik exit

■ Mercurial tycoon Albert Gubay is used to ruffling feathers. The man who founded Britain's Kwik Save supermarket chain caused a stir in the 1970s when he sold out and moved to New Zealand. Until recently he was a big noise on the Isle of Man, the tiny tax haven in the Irish Sea.

But now the flamboyant 70-year-old – ranked 58th richest person in the British Isles in one list – has moved to Ireland in search of excitement. He's planning to build a £20m Sports Science Institute on the outskirts of Dublin, one of only three worldwide offering medical and professional advice to top athletes. It's no surprise to Gubay-watchers that the plan is causing trouble.

Gubay was about to send in the bulldozers when confronted by last-minute planning objections. He's appealing – but making ominous noises about abandoning the entire scheme unless he gets the all-clear. "If these appeals are upheld that will be the end of it," he huffs. "I won't build the institute anywhere else in Ireland." Knowing Gubay, he probably means it.

Endgame

■ A group of chess enthusiasts are crowding their hotel lobby chatting about their many recent tournament victories. A frustrated hotel manager eventually asks them to disperse – because he can't stand "chess nuts boasting in an open foyer".

The Financial Times

100 years ago

German Strike Insurance
Notwithstanding the existence of repressive legislation in Germany in regard to industrial agitation, the large employers of labour in the Fatherland are finding it necessary to guard against the outbreak of labour disturbances in the same way as they provide against the visitation of incendiaries – namely by insurance. A company called "Industria" is now being formed at Berlin, the members of which desire to protect themselves against loss arising out of the strikes of their workmen. The movement may possibly spread to England; but if so, very heavy premiums will be exacted unless the spirit of turbulence should subside in the interval.

50 years ago

Sir Stafford: Be Cheerful
Sir Stafford Cripps, Minister for Economic Affairs, in a broadcast last night, called on everybody to be cheerful under present circumstances and declared that a spirit of cheerfulness will see us through our difficulties. He said Britain had cut such dollar goods as films and tobacco, so the only things on which to save dollars now are foodstuffs: "... we have to have less food for a time because we can't afford to buy it."

FINANCIAL TIMES
Monday November 3 1997

Italy's MPs to decide on pension reform plan

By James Blitz in Rome

Definitive proposals to reform Italy's pension system will be put to parliament this week, avoiding a budgetary crisis which could have seriously damaged the country's readiness to join the European single currency in 1999.

Romano Prodi, the prime minister, said the final settlement – reached after four months of negotiations – will, if passed, cot L4,100bn ($2.36bn) from pensions spending next year and end lingering doubts over whether the 1998 budget could be enacted by the end of the year.

Speaking to the Financial Times after sealing the agreement with the trade unions, Mr Prodi said he would have liked to achieve more substantial spending cnts, but that political pressures made this too difficult. "Our goal at the outset was to get radical change, and what we have got is a good compromise," he added. Reductions in spending over the next eix years amounted to "the maximum we could get – what I would call a major correction".

It is the third attempt in five years to scale back the most generous pensions system in Europe. Agreement came after trade unionists adjusted a reform package that had initially been agreed with Italy's neo-Communists.

The prime minister, forced into a temporary resignation over the issue last month, said an amendment to the 1998 budget which spelled out the pensions proposals would be put forward on Wednesday.

He called the final package of measures an historic step that would ease the doubts of fellow European Union leaders about Italy's fitness to join Emu.

Leading Italian economists said the package, which raises the age at which millions of Italians can retire, would do nothing to bring about long-term structural reductions in pensions outlays, now abont 14 per cent of gross domestic product.

"After a year of political initiatives, debates among experts and great reform projects, what we are left with is e bit of touching up," said Professor Maurizio Ferrera, a social security expert at the University of Padua.

Mr Prodi, bowaver, was pleased that the reforms would end certain privileges in the Italian pensions system.

He described himself as one of the few European leaders to make progress in adjusting his country's pensions liabilities. Other EU states should take this into account when assessing Italy's application to be a founder-mamber of the euro, he added.

Germany's pension policy faces backlash, Page 3

Indonesia starts IMF-backed reforms by closing 16 banks

By Sander Thoenes in Jakarta

More measures to liberalise and strengthen the Indonesian economy are expected to be announced today after the governmeot closed 16 troubled private banks over the weekend.

The closures were the first step in a reform programme backed by the International Monetary Fund and other lenders in return for more than $37bn in assistance to defend against currency attacks.

The new measures are expected to include import tariff rednctions, export incentives and the opening up of distribution and wholesale markets to foreign companies manufacturing in Indonesia.

On Saturday, Japan and Singapore confirmed their support for the IMF-sponsored package by pledging $5bn each in stand-hy loans to help Indonesia defend the rupiah, which has lost one-third of its value in recent months. The IMF, World Bank and Asian Development Bank have already pledged $23bn, the US $3bn and Malaysia $1bn.

With more expected from Australia, Hong Kong and perhaps China, the Indonesian package is more than dooble the amount offered to Thailand earlier this year, and second only to the bail-out of Mexico in 1995.

One of the donors' most important requirements was that the undercapitalised and overcrowded banking sector should be reformed. It appeared the government had waited until the weekend before announcing the bank closures to avoid panic among depositors.

Hundreds of people tried in vain to use the automatic teller machines of the affected banks on Saturday when the list of closures became public.

Sudradjad Djiwandono, governor of Bank Indonesia, the central bank, urged depositors to stay calm and vowed to pay back smaller depositors first. He said the government would guarantee payment of up to Rp20m ($5,600) per deposit, starting on November 13. He estimated that 93.7 per cent of deposits would be covered by this guarantee and that payments could total Rp2,300bn.

However, the list of bank closures – mainly small banks that had long been known to be in trouble – included Bank Harapan Santosa. A popular savings bank, it had reported assets of Rp3,770bn, more than the total cost of the bail-out as estimated by Mr Sudradjad.

Marie Muhammad, finance minister, said the bail-out would be financed through loans to be repaid from the budget. IMF officials had insisted the central bank abstain from bailing out banks to avoid boosting inflation.

Tough treatment, Page 16
Editorial Comment, Page 17

Washington and Iraq

Continued from Page 1

there will be no American inside Iraq taking [part] in inspections," said Taha Yassin Ramadan, the Iraqi vice president. "There is no retreat from our decision until things are put in order."

Baghdad's decision was in reponse to a UN Security Council resolntion last month threatening e ban on travel abroad by Iraqi officials who interfere with the work of UN inspectors.

Roadblocks set up in France

Continued from Page 1

5 per cent rise to FFr8,625 ($1,449.57) a month for 200 hours, and 20 per cent over the next three years.

In return, Jean-Claude Gayssot, the Communist transport minister, promised a tax break of FFr800 per driver to tbe companies.

Leaders of the CFDT unioo declared this "an excellent" arrangement. But despite desperate efforts all yesterday to postpone protests, militant truckers up and down France would not listen.

"The 1996 agreement left us with our trousers down – now *les patrons* expect us to drop our underpants," one angry driver told Frencb radio, insisting that grievances dating from last year's conflict remained unaddressed.

The main hauliers refused last night to consider going back to the negotiating table.

Last year the public sympathised witb the 230,000 truckers, who were seen to be poorly paid for long hours worked. This time the public'e sympathies may be more ambiguous.

EU plans may raise prices of electrical products

By Michael Smith in Brussels

European consumers face higher charges for electrical products under proposals for managing waste being considered by the European Commission.

The Commission's environment directorate wants to introduce measures requiring distributors of electrical and electronic goods to take back equipment at the end of its life. The measures would also require producers to re-use or recycle a proportion of the goods returned.

But a working paper prepared by the directorate suggests the costs of the recovery and disposal of products equipment should be paid when the product is put on the market – pushing up prices.

The proposals envisage schemes in each country to ensure users and distributors of equipment can return products that have reached the end of their lives.

Distributors would, if required, have to take back free of charge a similar but out-dated product when supplying a new one.

The paper suggests that at least 90 per cent of the waste cables, large white goods and IT equipment generated each year should be collected – although it gives no date for implementation.

The proportion would be 80 per cent for telecommunications equipment and 50 per cent for toys and brown goods such as radios and televisions.

IT and cable manufacturers would have to re-use or recycle at least 85 per cent of the equipment by weight. For telecoms and large white goods manufacturers the figure would be 80 per cent, brown goods 50 per cent, medical equipment 70 per cent and automatic dispensers 60 per cent.

The paper also suggests that the use of lead, mercury, cadmium and hexavalent chromium in electrical and electronic goods be phased out within an unspecified time.

But industry and consumer groups have significant reservations about the proposals. "The concept is OK, but the details cause problems," said Bill McCartney, a Motorola executive who chairs the environment committee of the Ectel telecommunications lobby.

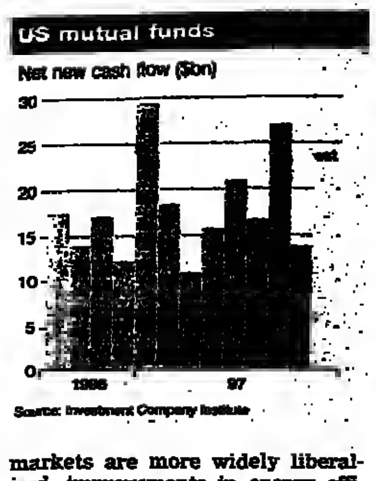
Rod Hunter, a Brussels lawyer advising the American Electronics Association, said a complete ban on the use of lead, mercury, cadmium and hexavalent cromium was "an astonishing and unrealistic suggestion".

The working paper will be discussed by EU countries' environmental experts next week.

THE LEX COLUMN

Act of Faith

To say that Main Street saved Wall Street may be a bit of an exaggeration. But there is no doubt that US retail investors – which still own about two-thirds of the stock market – reacted with remarkable aplomb in the face of last week's turbulence. By Wednesday's close, mutual fund redemptions amounted to only $1.3bn, a tiny fraction of the nearly $2,400bn held in equity funds, and far lower than in October 1987.



Source: Investment Company Institute

So far, at least, people's faith in equities does not seem to have been shaken. The correction has been smaller than the crash of a decade ago. The economy is much more robust this time around. And while investors have given up some profits, they are still sitting on a healthy gain; the average general equity fund is up 20 per cent for the year to date.

Encouragingly, most individuals appear to be treating stocks as genuine long-term investments – since they did nothing. Discount broker Charles Schwab, for instance, found that while its trading volumes more than doubled, five times as many customers called for information as bought or sold shares. The spread of timely news, through television and the internet, and the ability of the stock exchanges to handle unprecedented volumes also helped to contain any panic.

There is a snag, however. Investors' sangfroid rests largely on the very high equity returns they have experienced over the past few years. Rationally, these cannot continue unless the market falls further first.

Global warming

With the failure of the UN's climate talks in Bonn, the US has only a month before the Kyoto summit to accept that cutting greenhouse gas emissions will not mean long-term job losses. Right now the final protocol promises to be a sad affair given the power of the oil and coal lobby in the US, which has still failed to meet its obligations under the Rio Treaty.

Taxes on energy consumption may in theory be the most efficient way of reducing emissions. But in practice, because demand is inelastic and energy markets inflexible, public resistance and concern about the international competitiveness of businesses are real constraints. Companies and households cannot be subjected to penal energy taxes if they are unable switch to cleaner energy providers. So until energy markets are more widely liberalised, improvements in energy efficiency will explain the bulk of future emissions reductions.

Technology-rich US companies such as Honeywell are well placed to exploit a market estimated to be worth some $1,800bn over the next 40 years. By sparing the client any up-front expense on installing energy-saving equipment, they recoup their investment with a share of the savings. Small energy users may still require incentives to focus on efficiency. But it is clear that US companies and consumers have much to gain in the long term from energy efficiency.

It is therefore a shame that the US government lacks the courage to admit that while some jobs in some industries may be lost, new jobs will more than compensate.

Diageo

Turmoil in developing markets and ridicule of a new name have driven down Guinness and Grand Metropolitan shares to levels prevailing (against the market) before the merger was announced. This looks irrational. Take the name: Diageo. If it really was an "empty vessel", as one executive unwisely described it, that would cause concern.

But the £21bn ($35bn) merger still offers the benefits that made the shares jump on its announcement. One is the £2.4bn share buy-back; another is £200m annual savings; a third is the strengthened management. With leadership veering towards GrandMet, this deal should avoid the wasteful parallel culture and cost base problems that afflict some mergers.

A more serious worry is weakening currencies in developing countries. Last year the combined group derived nearly a quarter of its trading profits from outside Europe and North America. Guinness, which accounted for the bulk of this, has already warned of n £60m dent to profits this year and next. However, these mainly paper losses look small beer compared with pre-tax profit forecasts for the combined group of about £1.9bn for 1997-98, excluding one-off deal costs. A near 10 per cent share price fall against the market over the past couple of weeks seems overdone.

Diageo has just one regulatory hurdle to cross – that of the Federal Trade Commission – before efforts to sell the merger story are really cranked up. Some of the positive reaction elicited back in May should be easily retrieved.

Liberty

It is easy to sympathise with Denis Cassidy, the man called in to drag Liberty into the 20th century. He has done the dirty work at the upmarket department store group: closing poorly performing parts of the empire and replacing weak management. But he cannot ignore the wisbes of two hig groups of shareholders with 44 per cent of the company between them, who have called an extraordinary meeting to try to oust him.

The Stewart-Liberty family and Brian Myerson, a typical gadfly shareholder, have some reasoo to be impatient. After more than two years of Mr Cassidy'e medicine, and nearly £19m restructuring costs last year, there has been no marked improvement in underlying profitability.

Indeed, the company slipped into the red at the interim stage. And, before last week's recovery, the shares had underperformed the retail sector by a third over the past year. It is hardly surprising that investors are balking at his ambitious plans to invest £40m, equivalent to two-thirds of annual sales, in London's Regent Street store.

Liberty was allowed to run down under a family management that evaded accountability to outside sbareholders. There is certainly irony in the family now discovering shareholder activism. The rebels have yet to spell out bow they will revitalise the Liberty brand or, in other ways, unlock sbareholder value.

But unless Mr Cassidy comes up with a convincing plan for improving performance soon, he will deserve to lose the chair.

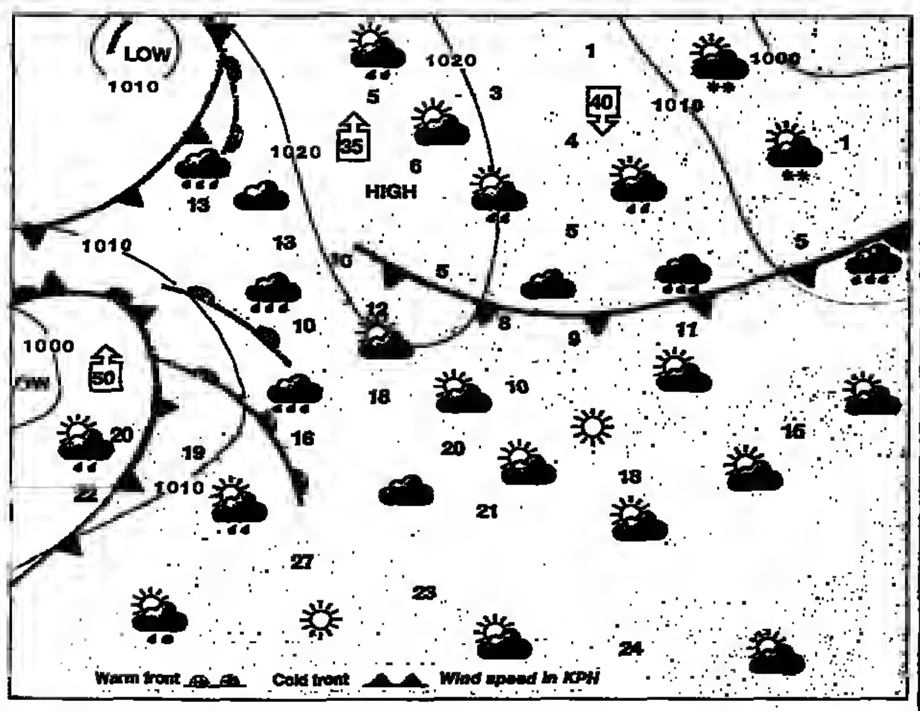
FT WEATHER GUIDE

Europe today

Scandinavia will have a very cold day with snow showers in the north and extreme east, but central and southern regions should have plenty of sunshine.
Eastern Europe will be cold, with western Russia and the Baltic states having some snow showers.
Central Europe, including the alpine states, the Low Countries and Germany, will be largely dry, with early fog and frost clearing to leave some sunny spells. But northern areas of this region may have some drizzle.
The central and eastern Mediterranean will be mainly fine, but the Iberian peninsula and western France will have showers.

Five-day forecast

North-eastern Europe will be mainly dry, but it will be very cold with snow flurries. South-east Europe will turn much warmer.
The rest of Europe will become very unsettled, with Atlantic fronts and depressions bringing rain and blustery winds to many places by midweek. The Mediterranean will be settled.



Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

TODAY'S TEMPERATURES

	Maximum	Beijing	Fair 14	Cardiff	Fair 12	Frankfurt	Fair 8	Madrid	Rain 17	Rangoon	Fair 30
	Celsius	Belfast	Cloudy 11	Casablanca	Thunder 25	Geneva	Cloudy 12	Majorca	Fair 23	Reykjavik	Cloudy 2
Abu Dhabi	Fair 32	Belgrade	Fair 12	Chicago	sleet 2	Gibraltar	Thunder 20	Malta	Cloudy 22	Rio	Thunder 28
Accra	Thunder 31	Berlin	Fair 8	Cologne	Cloudy 10	Glasgow	Cloudy 10	Manchester	Cloudy 12	Rome	Cloudy 20
Algiers	Fair 27	Bermuda	Shower 27	Dakar	Fair 31	Hamburg	Fair 4	Manila	Thunder 30	S. Frsco	Sun 22
Amsterdam	Cloudy 8	Bogota	Thunder 19	Dallas	Sun 13	Helsinki	Cloudy -1	Melbourne	Fair 19	Seoul	Fair 14
Athens	Cloudy 18	Bombay	Fair 34	Delhi	Fair 28	Hong Kong	Fair 24	Mexico City	Fair 26	Singapore	Thunder 32
Atlanta	Fair 14	Brussels	Fair 9	Dubai	Sun 32	Honolulu	Fair 29	Miami	Fair 28	Stockholm	Fair 3
B. Aires	Fair 20	Budapest	Fair 9	Dublin	Cloudy 11	Istanbul	Fair 15	Milan	Cloudy 18	Strasbourg	Cloudy 8
B.ham	Fair 12	C.hagen	Sun 4	Dubrovnik	Sun 13	Jakarta	Fair 34	Montreal	Fair 11	Sydney	Shower 22
Bangkok	Thunder 31	Cairo	Fair 26	Edinburgh	Cloudy 10	Jersey	Cloudy 13	Moscow	Cloudy 1	Tangier	Thunder 24
Barcelona	Drzzl 19	Caracas	Fair 30	Faro	Shower 21	Johannesburg	Fair 22	Munich	Cloudy 6	Tel Aviv	Thunder 27
						Karachi	Sun 33	Nairobi	Thunder 25	Tokyo	Cloudy 16
						Kuwait	Shower 30	Naples	Cloudy 21	Toronto	Cloudy 7
						L. Angeles	Sun 29	Nassau	Fair 29	Vancouver	Rain 12
						Las Palmas	Sun 26	New York	Cloudy 17	Venice	Fair 16
						Lima	Cloudy 24	Nice	Cloudy 17	Vienna	Cloudy 7
						Lisbon	Rain 20	Nicosia	Thunder 25	Warsaw	Cloudy 5
						London	Fair 13	Oslo	Sun 5	Washington	Cloudy 17
						Lux.bourg	Sun 8	Paris	Fair 11	Wellington	Shower 18
						Lyon	Cloudy 14	Perth	Sun 33	Winnipeg	Fair -2
						Madeira	Cloudy 24	Prague	Cloudy 5	Zurich	Cloudy 8

Bermuda

As tourism declines, turning the colony into a diversified financial centre is becoming crucial, say **Richard Waters** and **Canute James**

Paradise island broadens its horizons

Not just a beach: somewhat incongruously, the idyllic island whose economy has been built around tourism is now the world's third largest insurance market

Stand in front of tha flagpole on Hamilton's Front Street, and you find yourself at the heart of what remains of the British empire.

Here, on a rock 600 miles from the nearest land mass, a small Union flag flutters over an island of 60,000 souls – the most populous British colony left, now that Hong Kong has been returned to China.

The political future of this island is far from guaranteed, however. Bermudians have been asked to vote once already on the issue of independence, and the question is never far from view – even though the two political parties seem to have a tacit agreement to keep it out of the headlines during the forthcoming parliamentary elections.

Britain's new Labour government is now carrying out its own review of the country's 12 remaining colonies, known officially these days as "dependent territories." If that results in the mother country backing away from its ties to the island, Bermuda's political leaders suggest, then they would have little compunction about cutting the island loose.

It is a mark of the economic stability and political maturity that Bermuda has been developing that this issua matters less than it would have just a few years ago – though it is hardly something that a thriving international business community would welcome.

Somewhat incongruously for an idyllic island whose economy has traditionally been built around tourism, this is now the world's third largest insurance market, after London and New York.

The rapid growth of its international business sector – more than outweighing a decline in tourism – has left a society whose gross domestic product per person has reachad an impressive $30,000.

Meanwhile, the next elections, which must be called before October 1998, will be fought for the first time by two politicians, both women, from the island's black majority.

This may well end up being the first election that the United Bermuda Party (UBP) – a coalition of white and middle-class black interests – has lost since the 1968 constitution that created Bermuda's parliament.

But that possibility seems to cause few concerns among mambers of tha wealthy establishment that has held the reins of political power: the opposition PLP, shorn of its more strident tendencies, has become a more centrist party that is no longer seen as the threat that it once was.

However, the island has yet to deal with unresolved economic and social issues which have, if anything, been thrown into sharper relief by these successes.

The economic imbalances stem, in part, from Bermuda's dependence on insurance – a traditionally cyclical bnsiness. In the early-1990s, Bermuda shot to prominence as a source of insurance cover for catastrophe risks not available elsewhere.

Together with its history as a base for captive insurance companies – set up mainly by big US corporations to insure their own risks – and its small group of specialist insurers willing to take on large liability risks, this has been the foundation for an increasingly diverse insurance industry.

Ironically, though, Bermuda no longer boasts of its ability to attract insurance capital. (The reserves of its insurance companies hava jumped to $37bn, four times their level at the start of the decade.)

Excess capital is a curse in an industry with such low barriers to entry: it is often followed by falling profits, a willlngness to take on greater risk at lower cost – and, eventually, damaging losses.

Bermuda's challenga will be to prove that the brains of its insurance companies, rather than their financial muscle, are the real source of their strength.

The job of turning the island into a more diversified financial centre, reducing its dependence on insurance, is now under way – with mixed results.

Hedge funds and other investment management businesses have started to spring up, drawn as much by the lack of income taxes and balmy climate as tha financial infrastructure.

Attempts to foster an active securities industry, however, have failed to take root, and Bermuda has so far turned its back on off-shore banking. A record of cautious deregulation and effective financial supervision – give or take the occasional financial scandal that afflicts every centre at some time – should leave it well positioned to continue growing.

Two other economic challenges will be to rebuild a flagging tourism sector, and to attract other industries – preferably in high-value, high-tech areas – to the new development areas that are due to be constructed on land formerly occupied by military bases.

But international finance, tourism and high-tech manufacturing are all now the subject of intense international competition, and Bermnda's high cost base puts it at a disadvantage.

While trying to build on its international success, Bermuda has also begun to pay more attention to problems close to bome. This is a society of economic and social imbalances which political leaders admit are worrying, and which they say will take time to correct. Young Bermudlans are increasingly frustrated as the benefits and opportunities of an affluent society appear to recede from reach.

Also, Bermuda's parents worry about the quality of an education system which is in the midst of a radical overhaul many think is too ambitious, and the growing use of drugs among the young.

Both are issnes of real social concern: but the island's wealth, and a generally cohesive, churcb-going community, leave it better placed to deal with these problems than many others.

Drugs, meanwhile, have brought more crime. This island may still feel far safer than many of those in the Caribbean – but that is no consolation for locals who, for the first time in their lives, do not feel safe leaving their homes unlocked. Also, with its reliance on the luxury end of the tourism market, Bermuda can ill afford any perception that crime is a growing problem.

Another social challenge has been how Bermuda adjusts to its large expatriate population. About one in five of its workers are foreigners, a reflection both of the job creation that bas exceeded the island's long-term population growth, and the new range of skills needed by a burgeoning financial centre.

Locals feel left out of high-paying jobs that they do not bave the qualifications for: foreigners who have been long-term residents feel rebuffed by the moratorium on immigration.

It is a sign of the growing maturity of the colony's leaders that issues such as these, ignored until recently, are now at the top of the political agenda.

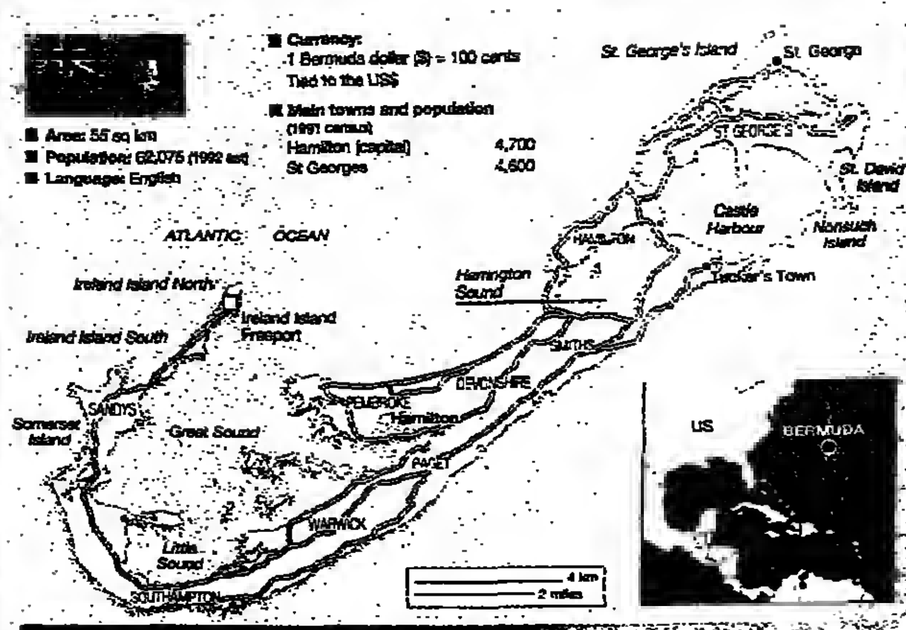
True to their geography of isolatinn (the second most remote inhabited island, some boast,) and justifiably proud of what they have done in making a sound economy of such limited resources, Bermudians often speak scathingly of the social, economic and political problems that have overtaken former British colonies in the Caribbean.

Yet comparison with these islands also prompts a sense of trepidation.

The message: we are doing very well, thank you, and we will continue doing so – as long as everyone keeps their head.



Pamela Gordon, the premier and UBP leader (left) and Jennifer Smith, opposition PLP leader




Front Street, Hamilton

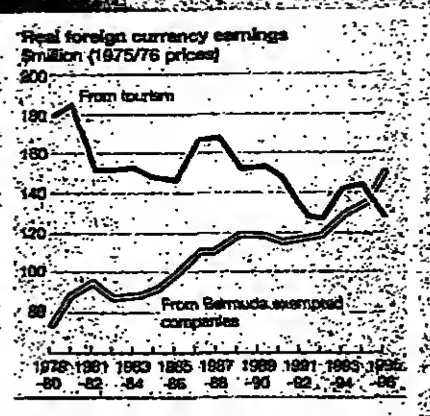
Economic summary

	1996 Estimates
Total GDP¹ ($bn)	2.15
Real GDP growth (annual % change)	2.6
Inflation (annual % change in CPI)	2.5²
Current account balance ($m)	125
Exports, fob ($m)	67
Imports, fob ($m)	569

¹ fiscal year beginning April 1 ² actual

Main import partners (share of total world imports, 1996)

US	73.0%
UK	6.1%
Caribbean	5.6%
Canada	4.4%



Sources: EIU; Europa; Ministry of Finance; Datastream/ICV

Constitution

• Official name: Bermuda
• Head of state: Queen Elizabeth II, represented by a governor who is responsible for defence, external affairs, the police and internal security
• Form of state: Representative democracy; British Dependent Territory
• The executive: Premier, chosen from the majority party, heads a cabinet of no more than 24 members of the legislature
• National legislature: Bicameral; the upper house, the Senate, consists of 11 members, five appointed by the governor on the advice of the premier, three on the advice of the leader of the opposition and three by the governor at his discretion; the lower house, the 40-member House of the Assembly, is directly elected for a maximum term of five years
• Legal system: Bermudian law and the legal system are based on the UK model
• National elections: October 1993; next election due by October 1998
• National government: The UBP has won the last eight elections
• Main political organisations: *Government* - United Bermuda Party (UBP) *Opposition* - Progressive Labour Party (PLP); National Liberal Party (NLP)

PROFILE Pamela Gordon and Jennifer Smith

Women of substance

Many believe the two women will alter the way politics is conducted

When Jennifer Smith, Bermoda's opposition leader, looks through the window of ber office, beyond the traffic on Hamiltou's Front Street, all sbe can see is the entrance to the office of Pamela Gordon, the premier. "Whenever I look across there, I am inspired," says Ms Smlth.

Ms Smith had hoped to be the first female premier of Bermuda. Until six months ago, sbe appeared to have a good chance of doing so, hot she was beateo to It hy Ms Gordon when a row in the Incumbent Uoited Bermuda Party (UBP) over foreign hamburger franchises led to the resignatiou of the premier, David Saul.

Sbe is optimistic. "Now I am boping to be the first Progressive Labour Party [PLP] premier," says Ms Smith, despite the fact that Ms Gordou's UBP has never lost an election.

With the colony's politics traditioually dominated by meo. Bermudians are savouring the prospect of choosing in the impending election between two women. both young and attractive and both of whom have been widely accepted as having the temperament for the job.

Their rise to the top bas been similar in some respects. They both achieved the leadership of their political parties when they did not expect to.

Ms Gordon was made a senator and appointed minister of youth, sport and recreation 1990. She was named minister of the environment, planning and natural resources in 1995. She became premier when she filled a vacancy in the UBP leadership following the row over the hamburger franchise.

Ms Smith became an MP in 1989 and was the shadow minister of education. She was elected deputy leader of the party in 1994 and became PLP leader last year following the death of Frederick Wade.

There is mntual respect between the two women. "Pamela Gordon and I share a common concern for the well being of Bermudians," says Ms Smith. "I am happy that Bermudians have accepted tbat they can have a woman as premier."

"[Ms Smith] understands that if Bermnda is to move forward then we all have to do it together," says Ms Gordon. "People want assurance, and I believe this is the intention of the opposition leader, although there are some people behind ber who are pursuing policies which divide."

They are also equally clear on what their political legacy should be. "We must focus on policies that benefit all Bermudians," says the opposition leader. "We will have social problems if this is not done."

As premier, Ms Gordon sees her role as encouraging the population to take control of their destiny. "If there is nothing else I can do from this office, it is to say to Bermudians, 'the government can only create the opportunities; you must seize the day'," she says.

The fact that women are now leading the two parties is considered by many as promising a significant change in the way political matters are carried out in Bermuda. "Both women are less tainted by the political process, such as the conflicts of interest which we sometimes see in politics," says Cris Valdes-Dapena of the Property Group, property consultants. "In addition, women bring a certain calm and levelheadedness to a management position that men in politics seem to lack."

Canute James

POLITICS • by Canute James

Political temperature rises

As the parties' policies converge, the next election is expected to be a close call

These are times of change for Bermuda's politics. By all accounts, the impending election will be one of the closest in the colony's 30 years of party politics. Neither the incumbent United Bermuda Party (UBP), which has never lost an election, nor the opposition Progressive Labour Party (PLP), have indicated that they are overwhelmingly confident of victory.

"Some are saying that 30 years is long enough for one party to be in charge," says Pamela Gordon, the premier and leader of the UBP. "This election will be really close."

Jennifer Smith, leader of PLP, contends that Bermudians are weary of the UBP's prolonged tenure. "This has made the UBP arrogant, unresponsive and ineffective," she says. "Our chances in the election are excellent."

Yet nine months ago, it appeared that a change to a PLP government was inevitable. The UBP was in trouble in the wake of damaging splits over independence and a row about hamburger franchises. A referendum on independence in late 1995 was preceded by a division within the UBP over the issne. Sir John Swan, the premier, who advocated independence, resigued when the move was defeated.

A move by his successor, David Saul, to allow Sir John and his business partners to establish a McDonald's fast food store on the island led to another split when UBP backbenchers rebelled against the proposal. In the furore, Mr Saul resigned, leaving the party in a state of uncertainty.

It appeared that the stage had been set for the UBP's defeat in the election and the installation of the first PLP government, headed by Ms Smith.

Now the outcome looks less clear. The fact that the parties are more evenly matched is credited to Ms Gordon, who succeeded Mr Saul in March. "She has knocked the party into shape with firm leadership," says the chief executive of one of the island's leading insurance companies. "The election battle will be more even than we thought six months ago."

Bermudians will choose as their political leader one of two women, both representing the majority black population, and, by all accounts, both capable administrators and astute politicians. "If the vote were based on the party leaders alone, then it would be a dead beat," says the insurance executive.

Bermuda's politics is changing also in the philosophical positions adopted by the parties. There has been a convergence of policies which Ms Smith claims has been caused by a progressive implementation by the UBP of PLP platforms. "This convergence of policies is a benefit for us," she says. "At our inception in the 1960s we were called socialist and communist. People now see that we have had the right ideas."

Both leaders are committed to dealing with problems in the colony's social infrastructure, while strengthening international business and tourism, the pillars of the economy.

Ms Gordon is concerned about the imbalance in the economy. Ten per cent of the population controls 90 per cent of the wealth, she says. "Fighting narcotics is a major issue. We are a small island and it comes in by plane and boat. For too long we did not want to admit the severity of the prohlem. We lost the young people, particularly the boys. This makes me a believer in the reform of education."

If elected, the PLP will "reform, redirect and clean up the social infrastructure", says Ms Smith. "This is vital to Bermuda's continued growth. Increasing violence and drug addiction are affecting the quality of life."

There are changes also in the support for the parties. Traditionally, the more conservative UBP has drawn most of its support from white Bermudians, with some backing from the black middle class. The PLP has been regarded as the party of black Bermudians.

"Party support along racial lines has changed in recent years," says Ms Gordon. "Look at me. Look at Sir John. The opposition points to us as uncle Toms. They do not accept that the face of politics is heing changed but say that we are being used. This is not the UBP of the 1970s."

Ms Smith agrees that it is no longer true that the profile of the parties' support is based on race. "Although the PLP was said to be the party of black Bermudians, there are many white Bermudians who supported it philosophically, but who publicly did not want anything to do with us. We have always had white members."

In the past, the prospect of a change from the UBP to the more liberal PLP would have given the business community more than small cause for concern. Now, business leaders maintain that they expect few and marginal changes in government policies if the PLP replaces the UBP.

"Politicians from both sides are themselves beneficiaries of international business," says Jan Splering, managing partner of Ernst and Young and chairman of the International Business Forum, a think-tank on national policy made up of businessmen, government officials and civil servants. "If there is a change of government, this will show the maturity of Bermuda as a jurisdiction."

A PLP administration would run Bermuda in a "practical manner" and would "delicately balance" its programme of social legislation with the concerns of international business and tourism, says Andrew Carr, president and CEO of Marsh & McLennan.

"They all know that international business is a hig part of the economy and they will not jeopardise this."

BERMUDA'S STATUS AS A COLONY • by Canute James

Still waving the Union flag

Neither party seems willing to reopen the question of independence

When Hurricane Felix swept Bermuda on August 15, 1995, its effect extended beyond the damage caused by high winds and heavy rain. It forced Bermudians to delay an important decision on their future – a referendum on the questions of independence for the island was held a day later than planned, after some two decades of debate on the issue.

Uncertainty over the colony's future caused by the debate had reached such a level of intensity that the referendum was inevitable. With one faction of the incumbent United Bermuda Party (UBP), including its leader Sir John Swan, then the premier, advocating independence, the vote should have been carried with the support of the opposition Progressive Lahour Party (PLP), which had long supported independence.

In the event, the PLP boycotted the referendum, claiming it was not happy with several constitutional matters and that the issue should be decided in a general election and not in a referendum. Just under 60 per cent of the electorate turned out for the plebiscite and a quarter of these voted for independence.

Sir John, who had staked his political future on the outcome of the referendum, saying he would resign if the vote was against, kept his word and was succeeded hy David Saul. The debate left the UBP divided.

Advocates of the status quo say there is little Bermuda can get from becoming independent. They contend that the success of the colony's international business and financial services sector must be ascribed to its links with Britain.

"With the Union Jack in the background, there is the feeling that no one here will do anything too radical to upset the economy and the politics of Bermuda," says a leading banker.

"All Bermudians have to do to get a lesson in what can happen is to look to the south and see the political, economic and social mess which many Caribbean islands have made of themaelves since they became independent," he adds.

Bermnda's constitution gives it almost complete internal self-government, witb the locally elected administration being responsible for the colony's internal affairs, except for internal security. This, along with foreign affairs and defence, are the responsibility of the UK government.

In the wake of the referendum, neither the UBP nor the PLP is making independence an issue. "We will not look at this matter for another 10 years," says Pamela Gordon, the premier and UBP leader.

"We will be forced to look at it if the UK decides to rid itself of Bermuda." She says, however, that the question of political status will be reopened if the PLP wins the impending election. "Bermndians have a right to choose, and they have chosen," she says.

However, Jennifer Smith, leader of the PLP, said that if it is successful in the election, the party would not immediately reopen the debate about independence. "The issue is in abeyance in the wake of tbe referendum," she says.

"We abstained on a principle of electoral reform hecause we need to be as democratic as possible about sucb important matters. Independence is not a priority for us right now."

Bermndian bnsiness agrees. The political and economic stability it needs could not be guaranteed if the British were not responsible for security matters, say business leaders.

"Independence would adversely affect Bermuda's image as an ideal location for international business," says William Woods, chief executive of the Bermuda Stock Exchange. "Our relationship with Britain and tbe benefits of ties to the OECD [Organisation for Economic Co-operation and Development] and the use of the Privy Council are significant reasons why international business wants to be here," he says.

As a self-governing colony, Bermuda "has the benefits of a dependent territory, so it cannot be dictated to", be adds.

The issue is not dead, however. Young, disaffected Bermudlans, feeling they are increasingly unable to share in the growing wealth of the colony, are likely to keep the question of independence on the political agenda.

And they could well find support from elements within both political parties that consider this too important a matter to be ignored for too long.

Britain's remaining empire

● **Anguilla:** A small, storm-battered island in the eastern Caribbean colonised in 1650; reverted to being a British territory after a period in the 1960s as an unwilling member of the Associated State of St Kitts-Nevis-Anguilla.

● **Bermuda:** Britain's oldest colony and now its most populous. Settled after a ship of settlers heading for America foundered on its reefs in 1609.

● **British Indian Ocean Territory:** Ceded to Britain in 1814; also claimed hy Mauritius. Population evicted after a US-British pact creating the Diego Garcia military base, which was later used during the 1991 Gulf War.

● **British Virgin Islands:** Discovered in 1493 by Columbus; annexed in 1672 and settled by European planters and African slaves.

● **Cayman Islands:** Low-lying coral islands that were settled in the 17th century.

● **Falkland Islands:** A wind-swept archipelago in the South Atlantic. Contested at different times by France, Britain, Spain and Argentina, which invaded in 1982 but was expelled by a British task force. Most of the 2,500 residents oppose claims by Buenos Aires, which calls the group Las Malvinas. Britain maintains a powerful and expensive military presence on the islands.

● **Gibraltar:** Strategic port at the mouth of the Mediterranean that Britain seized from Spain in 1704 and later held through repeated sieges. Spain contests sovereignty and cut border links in the 1960s. But residents voted to stay British.

● **Montserrat:** Caribbean island settled in the 17th century. Plans to declare independence stalled hy a series of hurricanes and volcanic eruption.

● **Pitcairn Islands:** A tiny volcanic island – with a population in 1985 of 58 – in the South Pacific settled in 1790 by mutineers from the HMS Bounty.

● **St Helena:** Remote island in the South Atlantic. Napoleon's place of exile after his defeat in the battle of Waterloo. Two dependent islands: Ascension and Tristan da Cunha.

● **South Georgia and the South Sandwich Islands:** South Georgia, an icy island south-east of the Falkland Islands, was claimed by explorer Captain Cook in 1775. A small military detachment and research station are maintained on the island, which was briefly occupied by Argentina in 1982. The South Sandwich Islands are uninhabited.

● **Turks and Caicos Islands:** Caribbean islands settled by planters loyal to Britain and their slaves after the American War of Independence (1771-1781).

Source: Reuters

هكذا من الاصل

PROFILE **The Bank of Butterfield**

An unfinished revolution

Reforms started by the bank's chief are in doubt following his recent departure

When John Tugwell took over as chief executive at the Bank of Butterfield, Bermuda's oldest bank, he brought with him a management style that may have ruffled the feathers of some of his longer established colleagues.

Schooled at the UK's National Westminster bank, where he learnt what was required in order to stay afloat in the highly competitive world of commercial banking, Mr Tugwell introduced controversial cost-cutting measures and decided to exit several businesses.

But his abrupt departure from the bank less than a year into the job and the retirement of Sir David Gibbons as chairman has raised doubts about the bank's ability to complete the revolution he started.

Within months of his appointment, he implemented a desperately needed shake-up at the bank, shutting down overseas operations and stripping out layers of management. Staff numbers are being cut by about 10 per cent and the number of directors has been reduced by a third – including Pamela Gordon who left when she became leader of Bermuda's ruling party and premier.

Now Mr Tugwell is leaving for "personal reasons". Bank of Butterfield refuses to elaborate, but some on the island wonder whether a clash over strategy might be partly to blame.

The bank had been performing poorly for several years. Earnings growth had been sluggish and the banking business on Bermuda was barely profitable. The dividend had been held static for three years.

"We were making acquisitions to grow, but not in core areas," says Graham Brooks, senior vice-president. "Tugwell said let's concentrate on what we're good at."

The bank's office in Singapore has been closed and several UK subsidiaries specialising in trade finance are being sold. Along with the reduction to staff, the bank hopes these measures will lead to an improvement in return on equity from 10.7 per cent in 1996 to more than 15 per cent in the near future.

But achieving this will be costly. The bank has taken a one-off provision of $10.1m for closing the overseas subsidiaries. Including losses from discontinued operations, net income last year fell 64 per cent from $29m to $10.4m.

Mr Tugwell had been determined that Bank of Butterfield should concentrate on its treasury and fund management activities – last year accounting for some 28 per cent of revenue. The bank recently launched a money management fund targeting the insurance industry in Bermuda, and assets under management rose 17 per cent last year from $1.6bn to $1.9bn. A recovery in the bank's share price suggests that investors are enthusiastic about the reforms.

The bank expects to appoint a new chief executive shortly but few can be pleased with the recent uncertainty. The bank says it is committed to the "long-range execution" of Mr Tugwell's plan. Only time will tell how serious that commitment is.

Christopher Adams

FINANCIAL SERVICES • by Christopher Adams

Influx of new vehicles

Rules are being adapted to accommodate a broader range of investments

Bermuda has stepped up efforts to broaden its financial services base by moving to tap the rapid growth in mutual funds and rising demand among listed overseas companies for alternative trading venues.

But the government will have to tread carefully as it introduces rules designed to accommodate new investment vehicles if it is to retain the light tax and regulatory regime which investors find attractive: other offshore centres are also competing heavily for the business.

The number of investment schemes registered in Bermuda has increased sharply in recent months, rising from 714 to 944 over the year to June. The value of funds has swelled from $14.7bn to $20.4bn, making this the fastest growing area of financial services.

Bermuda has traditionally been regarded as a commercial insurance centre. Unlike the Cayman Islands, it does not have a strong offshore banking sector.

However, it has succeeded in attracting companies that operate in shipping, aircraft leasing and investment management.

Companies that are based in Bermuda pay no local tax, and are not subject to exchange controls or stamp duties. Ships registered in Bermuda can apply for exemption from freight tax levied on goods imported to the US.

Most recently, the island has benefited from the strength in the US economy, which has encouraged private individuals to invest in the equity markets. Millions of small investors have put some $1,800bn into equities through mutual funds.

In addition, a move that has taken place within the insurance sector towards "securitisation", or placing risk with investors in the capital markets, is likely to underpin the further development of financial services.

"The thing is to build on the strengths you've already got," says Grant Gibbons, minister of finance. "A lot of insurance companies are beginning to look like investment banks in terms of risk transfer."

He says that Bermuda is amending its regulatory rules in order to cope with the influx of capital. Last year, it introduced a classification structure which set different parameters for institutional and retail funds.

It is also preparing a draft bill to regulate the securitisation of risk, to be published shortly.

Kymn Astwood, registrar of companies, says that investors are uncertain about the status of products such as hurricane-linked bonds, or contracts traded on Bermuda's new catastrophe index that enable insurers to spread their risk more widely.

William Woods, chief executive of the stock exchange, says that 94 mutual funds have listed over the past 18 months. But trading in the funds is light and generates little revenue for the exchange.

Instead, Mr Woods is pursuing Asian companies that might be looking for a trading venue located in a western time zone.

The exchange, which was established in 1971, has also succeeded in persuading a number of Russian companies to list depositary certificates.

The market capitalisation of all the listed stocks – excluding mutual funds – expanded rapidly from $1.5bn at the end of 1995 to $37bn today. There are currently 65 stocks, of which 13 are international.

Mr Woods says the exchange is also trying to build a niche trade in crossing big blocks of business on the New York stock exchange.

Bermuda opens 90 minutes ahead of New York and remains open after New York closes. In October last year, it began allowing members to do in-house trading between clients in the US. In this way, large investors can sell stock without the danger of driving the price down.

The US regulatory authorities allow members to trade in stocks on exchanges outside the US as long as it occur outside trading hours. London and Hong Kong have so far won much of this business.

Finally, the exchange is launching an index of Bermuda-based insurance companies. "This will closely correlate the claims and losses of the Bermudian market. It could act as a hedge on big hits in the US," says Mr Woods.

Meanwhile, efforts by Bermudian banks to develop their own asset management operations have focused on the island's captive insurance sector, which comprises companies which were set up by multinationals dedicated to serving their parents' insurance needs.

However, the entire insurance and reinsurance industry based in Bermuda has $90bn in assets. The local banks – Bank of Bermuda, Bank of Butterfield and Bermuda Commercial Bank – have yet to win much of this.

"We have a pro-active marketing programme and would like to grow our share of this market," says Graham Brooks, senior vice-president at the Bank of Butterfield.

"But this will be limited by what investment policy a company has."

In trying to win customers among the big insurance companies, the banks are competing with global asset managers, like Merrill Lynch Asset Management, Invesco and Schroders. It is thought that local firms manage only about 3 per cent of the $90bn.

Collective investment schemes

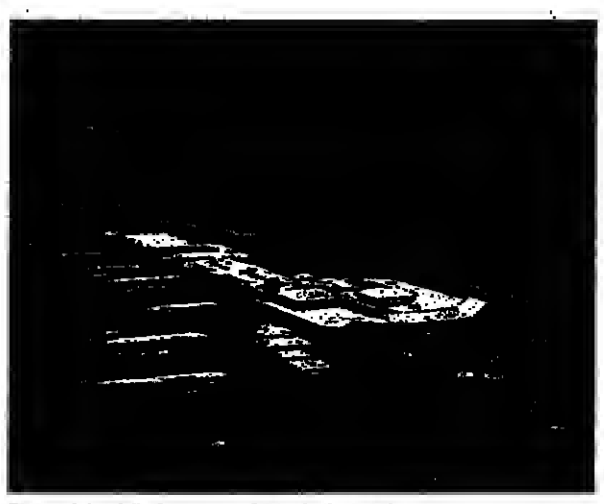
Number of funds	1996 Q2	1996 Q3	1996 Q4	1997 Q1	1997 Q2
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	502
[illegible]	[illegible]	[illegible]	[illegible]	72	78
Umbrella funds	59	60	63	67	82
Sub funds	202	202	205	205	210
Feeder funds	[illegible]	[illegible]	[illegible]	6	[illegible]
Total mutual funds	601	610	725	746	796
Unit trusts	[illegible]	[illegible]	69	70	73
Umbrella trusts	10	10	10	10	16
Sub trusts	13	13	14	14	18
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total unit trusts / Partnerships	24	45	49	52	55
Feeder trusts	[illegible]	[illegible]	2	2	2
Total	714	746	859	884	944
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

*No data available. Source: Bermuda Monetary Authority

ECONOMY • by Richard Waters

Prospects rest on a new kind of engine

International finance is taking over from tourism as the mainstay of the economy



Bermuda's civil airport: tourist arrivals are down

With hindsight, the mid-1990s look to have marked a historic turning point for Bermuda's economy. The slow decline in real spending on tourism – the traditional mainstay of the island's economy – finally intersected with the rapid growth of the international business sector. The result: barring a sharp reversal, international finance (which generated $660m of foreign earnings in 1995) rather than tourism is likely to be the biggest engine of the $2bn local economy from now on.

The prosperity of the island will depend, in many ways, on how well it deals with the implications of this pivotal event.

The international business sector remains dominated by financial services – particularly insurance and reinsurance industries. Earnings from international business jumped by more than one fifth in 1995, the most recent year for which figures are available, continuing the sharp increase resulting from the decision by more companies to locate, rather than just register, on the island. Insurance companies, more than 100 of which are physically present on the island, have led this expansion.

Bermuda is well-placed to expand beyond this insurance-dominated base – essential if it is to maintain growth and reduce its exposure to a cyclical industry. The island has a history of cautious deregulation, and a large number of accountants, lawyers and other professionals are already in place. Its reputation for quality is also a draw.

But further deregulation will not be without risks. The so-called "60/40 rule" restricting foreign ownership of domestic companies to a minority holding, has "hindered rather than helped" the island's small banking industry to expand, says David Brown, chairman of Center Re, a subsidiary of Zurich Insurance. Meanwhile, the banks' profitable trust business has been opened to foreigners.

Partial deregulation and an undercapitalised banking industry have in other countries been ingredients for disaster, as financial regulators first hold back their local institutions, then overreact by rushing through the sweeping deregulation that can lead to unconstrained growth. How Bermuda avoids these pitfalls will be one of the big tests of the coming years.

Meanwhile, tourism – traditionally the island's biggest employer – has sagged since 1980 and its decline will not easily be reversed. Both international finance and tourism face a similar challenge: a high local cost base that threatens to put them at a competitive disadvantage to destinations that have sprung up elsewhere.

These high costs are in part an unavoidable consequence of having to import everything from fuel to food. But they are also a result of the inflationary burst that lasted throughout the 1980s – a time when the US was bringing its own inflation under control. Bermuda failed to restrain soaring labour costs while productivity growth lagged, particularly in the hotel industry.

This decade, price restraint has been more effective. But the built-in cost disadvantage hampers businesses which cannot justify their higher prices with higher value-added. Retailers, for instance, complain of the competition that comes from growing international travel by locals: no trip to the US is complete without a visit to a Walmart store, while buying direct from overseas is becoming more common.

Deregulation will help. The telecoms industry, for instance, has been deregulated, an unusual move for such a small country, and a second cable has been laid to the US, while import duties on computers have been cut. But high costs will remain a fact of life.

Economic growth, meanwhile, has put pressure on two resources in short supply: land and people. On a 21-mile long island inhabited by 60,000 people, there are clear limits to the nature of economic growth.

The land issue, at least, should not prove too much of a restraining factor for some time to come, thanks to the handover of the former British, Canadian and US military bases.

The phase-out of these bases put something of a drag on the local economy but using the land for more productive purposes should provide a boost.

The process is like the shedding of an under-performing subsidiary by a company, says Grant Gibbons, Bermuda's finance minister: it releases resources that can be better employed.

The shift will include Bermuda's first attempt to move into light manufacturing. "We see an industrial park as a good way to diversify," says Mr Gibbons. Starting from scratch, though, will be a challenge. New microchip plants are fought for vehemently by countries around the world, and Bermuda cannot demonstrate a history of high-quality manufacturing.

This highlights an issue central to Bermuda's economic success: the development of a more highly-skilled, service-conscious workforce. This is an issue of particular importance to a country that wants to compete in markets such as international finance, tourism and microchips.

With the international business sector adding jobs at a rate of more than 6 per cent a year while tourism declines, this is already a central economic and social issue.

"There are no major fisheries, farms, factories or forests in Bermuda to provide large numbers of jobs for unskilled people," says Mansfield Brock, head of the Bermuda Monetary Authority and a former education minister. "Our schools have to educate more people to a higher standard" than those in other countries.

PROFILE **Michael Butt**

Hands on the lever

Formerly at Eagle Star, Mid Ocean's boss enjoys his company's clean balance sheet

Michael Butt hates baggage. When he took over as chief executive of Mid Ocean in 1992 what he liked most about the Bermuda-based catastrophe reinsurer was its clean balance sheet. No claims, no reserves, no premiums. Perfect.

Formerly head of Eagle Star, the composite insurance subsidiary of BAT Industries, Mr Butt has good reason to feel that way.

It was at Eagle Star that he suffered the full force of one of the biggest crises to affect the UK insurance market, losing his job as a result of the industry's disastrous exposure to mortgage indemnity insurance.

Eagle Star had expanded rapidly into the commercial and domestic mortgage indemnity market in the late 1980s, insuring lenders against any losses they might make after selling repossessed properties.

When the British housing market slumped shortly afterwards and the rate of reposessions increased sharply, mortgage indemnity claims spiralled and Eagle Star suffered huge losses.

After paying the penalty for Eagle Star's troubles, Mr Butt was recruited to strengthen the management team at the newly formed Mid Ocean, which has subsequently grown from a capital base of $350m to $1.1bn.

Last year, the company earned a net income of $211m on premiums which totalled $436m.

Mr Butt says that insurance should be an uncomplicated business that is focused purely on assessing exposure and pricing risk.

This, however, is often not the case. At Eagle Star, he says, he felt stifled. "Having your hands on the rudder of a boat that big is much more difficult than I thought," he says.

"Large insurance companies have a tendency to be management driven rather than insurance driven. It's often middle management that kills you and not the concept.

"When I left Eagle Star, a friend asked me how I had used my time. I saw that I had been spending 60 to 80 per cent of it on internal issues.

"Coming to a company of only four people, the difference is that your hands are on the lever and the boat moves forward because you're in a dinghy rather than a supertanker. This is much more immediately rewarding."

This year, Mid Ocean has diversified away from pure catastrophe reinsurance, where fierce competition has been eroding margins, with the acquisition of Brockbank, which owns one of the largest managing agencies in Lloyd's of London.

Investing in Lloyd's, which suffered disastrous losses in the late 1980s and early 1990s, is not without its risks. But Mr Butt says that the 309-year old society's recovery plan has created a unique opportunity.

"We had huge capital but no past, no incumbent to the capital. Lloyd's has a worldwide licence and writes 30 lines of business," he says.

Bermudian insurance companies have moved swiftly since Lloyd's opened its doors to corporate investors three years ago and now control 20 per cent of the capital backing the £10.3bn of business which Lloyd's can write.

"If you stay static today, you're dead," says Mr Butt. "So you have to keep moving. We're looking for opportunities and would seek to continue our geographic expansion.

"Also, if you take a long-term view, you have to believe that emerging markets have great potential for growth," he adds.

Mr Butt is clearly satisfied with his move to Mid Ocean. He is one of only a few Bermuda-based insurance executives to have bought a home on the island. Most rent property.

Christopher Adams

TOURISM • by Richard Waters

Visitors look to other shores

Competition from new destinations means Bermuda must upgrade its facilities

There is no easy cure for the problems that afflict Bermuda's tourism industry. And, for an island where international finance has become the main source of foreign earnings, that matters: insurance companies may have generated much of Bermuda's new wealth, but they are never likely to provide the number of jobs that have traditionally depended on visitors from the north-east corner of the US.

The difficulties affecting tourism are apparent from the island's dwindling visitor numbers. In 1980, more than 491,000 people came to Bermuda (not counting cruise ship passengers). By last year, the arrivals were 100,000 lower. The picture is no better this year, with visitors down another 6 per cent in the first eight months.

The lure of the Caribbean, which cheap air travel has made accessible to more Americans from the frozen north, has much to do with this state of affairs. Also, states from Arizona to the Carolinas now have the quality golf courses and resort hotels that can compete more effectively for the sort of business that once came naturally to Bermuda.

"We were the architects of modern-day island tourism," says Gary Phillips, who as director of tourism for the past 11 years has had one of the more difficult jobs on the island. "But, like any product, it reaches maturity."

Finding a place for the island in this more competitive tourist age has prompted considerable soul-searching, particularly over the issue of cruise ships. More frequent visits by these floating resorts has helped lift the number of visitors, but it has done little for the overall health of the tourism industry.

These are people who spend much less money while on the island (an average of $225 each, compared to the $1,100 spent by other visitors.) Also, the giant cruise ships looming over Hamilton's Front Street have brought with them a rash of t-shirt and gift shops – a phenomenon which some locals fear will damage the island's up-scale tourist image and turn its more well-heeled visitors away.

This is much more than a cyclical problem. Bermuda's traditional clients – the well-to-do professionals who inhabit the north-eastern US – are enjoying a period of considerable prosperity. Four out of every five visitors comes from the US. If they are staying away now when times are good, how bad will things get when the US economy next goes into decline?

Two large hotels have already closed their doors in recent years, and it seems likely others will follow. The average, year-round occupancy of Bermuda's eight big establishments was only 59 per cent last year: during that period, these hotels racked up losses of $5.6m between them.

This is despite the sort of prices that make visitors gasp. A room in one of the large hotels costs more than $300 per night, on average – thanks in part to high labour costs. Joan Griffin, a US tour organiser whose Bermuda Sports Marketing specialises in trips to island, blames the high costs largely on high wage rates, a view echoed by others in the tourism industry in Bermuda itself. "Where else does a chambermaid make $800 a week?" Ms Griffin says.

In addition, despite considerable refurbishment of late, Bermuda cannot get away from the fact that its last big hotel, the Southampton Princess, is now a quarter of a century old.

At the same time, the needs of the people visiting the island have changed. Official figures suggest that about 15 per cent of visitors come on business, but that the actual proportion is reckoned to be far higher.

The type of service offered by some of the hotels may not have kept pace with this shift, suggests Wendy Davis-Johnson, a former head of the Bermuda International Business Association. "If you're in business, you want to be productive and get your work done," she says. Many hotel rooms still lack the facilities modern business travellers demand.

Faced with issues such as these, Bermuda has been paying more attention to matching the quality of its tourism product to the premium price it charges. "You have to provide a higher value-added package," says Grant Gibbons, Bermuda's finance minister. Mr Phillips adds: "We're in a price-sensitive market. We must go on value for money."

Some headway has been made on one important issue, according to frequent visitors: the quality of service in many restaurants and hotels. To the average American visitor, accustomed to high service levels at home, the less effusive welcome accorded by many establishments has always been a source of frustration. This, say many visitors, is an area where more training has helped.

Bermuda is taking the first steps towards building the modern resorts it lacks. The first of its former naval bases to be redeveloped, now known as Morgan's Point, will include a resort with its own marina and golf course – the sort of all-in destination that has become for this generation what the hotel-and-beach establishment was for the last.

This is a "kill or cure" response: new resorts such as this may bring extra visitors to island, or they may lure customers away from the older hotels, but either way they are likely to play an important part in Bermuda's future.

At the same time, efforts are under way to develop a broader range of tourist activities for an island which has traditionally sold itself on its pink beaches and sunshine. Visitors see this as a good place to "relax and relieve stress," according to an opinion survey last year by Data Development Corporation. They are less impressed by the island's facilities, its lack of tourist activities and the quality of restaurants and shops.

None of these efforts, though, should detract from what is likely to be the best hope for Bermuda's tourism industry: re-enforcing its traditional position as a luxury destination, a place where the streets are safer, the beaches quieter and the environment more refined than the run-of-the-mill holiday island.

"We can be repositioned as what we were some years ago – as a jewel, as a quality destination which exceeds [visitors'] expectations," says Mr Phillips. Getting to that point, however, is likely to take some time.

Horseshore Bay: efforts are under way to develop a broader range of tourist activities for an island which has traditionally sold itself on its pink beaches and sunshine

FORMER MILITARY BASES • by Canute James

An asset returns

Big plans are being made for land once used by US, British and Canadian forces

"Imagine, if you can, territory made up of California, Nevada and Arizona being returned to the United States," says Grant Gibbons, Bermuda's finance minister. "This is [proportionately] what has happened to Bermuda with the return of the military bases."

The government has ambitious plans for the use of the bases, which were previously occupied by US, British and Canadian forces, and which, along with the airport, make up 10 per cent of the island.

The bases were used mainly for tracking Soviet submarines in the North Atlantic. The end of the cold war and improved technology made the bases obsolete. The bases once contributed to the island's economy through local spending by those working there. The plan is to make these lands again an asset to the economy.

"Our company's mandate is to develop and use the former bases in ways which will reintegrate them back into the economic and social fabric of Bermuda," says Carl Musson, chief executive officer of the Bermuda Land Development Company.

While some parts will be used to expand the island's tourism capacity, there are plans to introduce a range of service industries, such as telecommunications and informatics, to broaden the base of the economy.

The 707 acres previously used as military bases are in four locations. About $350m will be invested in 250 acres at Morgan's Point, and by the end of this year the Land Development Company hopes to conclude an agreement with a developer to create a 200-room cottage colony style hotel and spa, a 400-berth marina, and an 18 hole championship golf course designed by Jack Nicklaus.

Daniels' Head is a 17-acre peninsula which was occupied by the Canadian armed forces, and will be developed as an eco-tourism resort. Tudor Hill, on 25 acres, is being prepared for residential and tourism development.

The largest of the former bases is Southside in the east of the island. The 415-acre property, which was part of a US naval air station, is adjacent to the airport.

"The development of Southside will be done over the next 20-25 years," says Mr Musson. "It is suited to many of the commercial operations which we are hoping to attract. The telecommunications at the site is good with fibre optic cables which will be useful to the telecommunications and the informatics industry."

The former base has been zoned also for other commercial operations, including a freeport, warehousing, fish processing, freight forwarding and aircraft maintenance.

Sections have been reserved for residential communities and public parks. Between $60m and $70m will be spent on improving Southside's infrastructure in the first five years of the development.

The most ambitious venture planned for the former base is the relocation of the island's container terminal from Hamilton, the capital. "The Hamilton port is nearing its operating capacity, and will exceed this before 2009, which is the date earlier forecasts had projected," says Mr Musson.

"The creation of a seaport in Southside has the potential to offer the economy several benefits, particularly in combining the port facilities with air cargo facilities at the adjacent airport and a container stripping facility which will reduce the volume of container traffic on the roads," he says.

FAST FOOD OUTLETS • by Canute James

Battle of the burgers still sizzles

A legal wrangle over fast food franchises has divided the government

Neither side is claiming victory after the latest volleys in Bermuda's hamburger war. A company in which a former premier is a principal is locked in a legal battle over its bid to establish McDonald's fast food franchises on the island.

The issue has split the government, with a faction which is against the introduction of hamburger restaurants finding common cause with the opposition to successfully introduce legislation banning fast food franchises such as McDonald's.

The row in the ruling United Bermuda Party contributed to the resignation of David Saul, the premier, in March.

The split was sufficiently damaging to have threatened the survival of the administration. "We almost lost a government over hamburgers," says Pamela Gordon, the premier and UBP leader.

Bermuda has fast food restaurants. Kentucky Fried Chicken restaurants have been on the island for more than two decades. Bermudians had limited access to a McDonald's restaurant at a US naval base. The restaurant was closed when the US military pulled out of the island two years ago. The legislation barring fast food franchises ruled that none could be established after May 10 last year.

Opposition to hamburger restaurants has been based on the manner in which the franchise was originally granted to Sir John Swan, the former premier, and his business partners and the effect it is claimed such restaurants could have on Bermuda.

The administration had previously maintained that fast food franchises should not be allowed, says Trevor Moniz, one of the UBP back benchers who supported the legislation banning the restaurants.

This was the policy when Sir John Swan was premier, and Mr Moniz and his colleagues rebelled against an apparent change in government policy which would favour Sir John as a partner in Grape Bay, the company seeking the McDonald's franchise.

"This is an ethical issue," says Mr Moniz. "It raises the prospect of sleaze. It was said we did not want any McDonald's, and we said this when Sir John was premier. This was the policy for 25 years and everyone said that such franchises would be bad for Bermuda's image."

The presence of more fast food restaurants on the island would also adversely affect Bermuda's efforts to attract more wealthy tourists, supporters of the legislation said.

"It would cheapen Bermuda's image as a destination for those in the higher end of the tourism market," says one of the island's leading lawyers.

The opposition Progressive Labour Party supports the ban on hamburger restaurants. Such establishments would damage Bermuda's environment and its cultural image, says Jennifer Smith, the leader of the PLP.

"We need to encourage Bermudians who want to establish business such as these," she says. "We were also very concerned about the distasteful manner in which the government was allowing the franchise for McDonald's."

Although the controversial concession has been granted to Grape Bay, the lease for the continued operation of the store at the airport has not been approved because of the row.

The bill banning foreign fast food franchises was signed into law by Thorold Masefield, Bermuda's governor. However, a court subsequently ruled that the act was unconstitutional, leaving open the way for McDonald's restaurants to be set up in Bermuda.

Sir John and his partners have not commented publicly on their next move, but the legal battle is likely to continue, and the matter may eventually reach the Privy Council in London. "The latest ruling means that a company could go ahead and set up a McDonald's," says Mr Moniz.

"But the ruling will be appealed by the attorney general when the Appeal Court sits in March. So they could still be prevented. Any investment in such a franchise now is a very risky as the investors could lose."

The row in the ruling United Bermuda party contributed to the resignation of David Saul, the premier, in March

To munch or not to munch: the island is debating whether to join the rest of the world and allow fast food chains to set up shop AP

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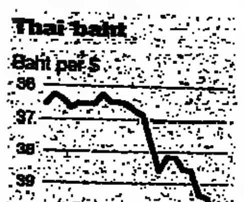
FINANCIAL TIMES
COMPANIES & MARKETS
Monday November 3 1997
Week 45

INSIDE

Thailand tests market patience



The dollar has not been the only victim of the turmoil in equities. The Thai baht is one of several emerging markets currencies that look as if they are in serious trouble. The baht ended Friday at a record low of Bt40.25 to the dollar, as the market started losing patience with Thailand's inability to come up with an economic rescue package. The Thai authorities will be praying for a bounce in Wall Street this week, as that could calm global fears about other high-yielding assets. Page 24

GLOBAL INVESTOR
Equities and bonds take different paths
Last week's market upheavals ended with equity and bond markets only slightly changed. But there was a marked difference between the performance of the two categories of securities. Page 22

INTERNATIONAL EQUITIES
Offerings in a gyrating market
In spite of last week's stock market gyrations, the market for new equity offerings remains surprisingly robust. Aside from the decision by Volkswagen, the German carmaker, to delay its rights issue, there were no postponements of large offerings. Page 22

COMMODITIES
Mixed fortunes in Asia from El Niño
Australian grain farmers are talking of their miraculous escape from the worst ravages of the El Niño weather pattern; but elsewhere in the southern hemisphere it is a different story, as a conference to discuss El Niño, scheduled to start in Manila on Thursday, will learn. Page 24

MARKETS THIS WEEK
New York
Last week's stock market correction appears to have delayed the need for a rise in US interest rates, but it remains to be seen whether the Treasury market's popularity as a haven will continue. Page 24

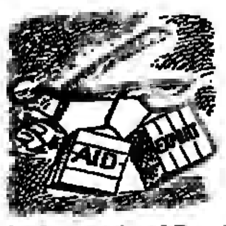
Frankfurt
The German DAX index of blue chips ended marginally higher on Friday in electronic trading at 3,753.66. Gerhard Eberstadt, director of Dresdner Bank, said developments in Asia had not altered the generally positive outlook for the world economy. Page 24

Tokyo
Japan's traders have the day off today, but it is unlikely they will be able to relax fully with other world markets open. The Nikkei index tested the 16,000 support level on Friday morning, and is unlikely to move into much safer territory this week. Page 24

London
There is no secret about what traders in London will be hoping for this week – a bit of peace and quiet. The main domestic focus this week will be the Bank of England monetary policy committee decision on interest rates, which will be announced on Thursday. Page 24

Hong Kong
Further volatility is expected this week after the Hang Seng index finished a rollercoaster week 4.7 per cent lower. Both H-shares and red chips were strong on Friday and are expected to remain so this week. Page 24

FT GUIDE TO THE WEEK
– full listings Page 36



OVERSEAS AID
The biggest shake-up in British aid policy for 20 years will be set out on Wednesday in the government's white paper on international development, a product of the new Department for International Development (DFID) under Clare Short. Will this mean aid will no longer be used as a lever to encourage recipients to make political and economic reform?

GOOD BREEDING
Horse racing's richest meeting, the Breeders' Cup series of races at Hollywood Park, California, to be held on Friday, has attracted entries from around the world.

Companies in this issue

Market Statistics http://www.FT.com

Conglomerate blames losses in heavy industry sector

Haitai joins Korean list of companies in trouble

By John Burton in Seoul

Haitai, a leading South Korean confectionery producer, joined the growing list of the nation's conglomerates filing for bankruptcy protection at the weekend amid worries that a large retail group, New Core, may soon follow.

Meanwhile, Kia Motors, South Korea's troubled carmaker, is expected to resume operations today after workers ended a 10-day strike to protest the government takeover of the company.

Haitai, Korea's 24th largest business, requested court protection for its profitable confectionery, beverage, trading and retail units while it applied for court receivership for its lossmaking electronics and industrial operations in the first step to selling them.

Haitai had amassed an unsustainable debt burden owing to an expansion policy into unrelated businesses – as have other Korean conglomerates that have fallen victim to an economic slowdown.

Meanwhile, government officials told the national news agency Yonhap that New Core might become the next conglomerate to collapse because it appears that creditor banks will refuse it new loans. New Core was saved from bankruptcy two weeks ago when it received Won54.5bn ($56.5m) in loans.

The collapse of Haitai and New Core would mean that a fifth of Korea's top 30 conglomerates have filed for bankruptcy this year. More are expected since corporate financing is becoming tighter as borrowing rates climb due to credit downgrades by overseas rating agencies and cautious lending by domestic banks.

Financial troubles at Haitai became apparent in late August when it received emergency loans to avoid bankruptcy. Its debts of nearly Won3,000bn are close to seven times equity. Haitai reported 1996 net profits of Won35.8bn on sales of Won2,710bn.

Haitai was considered particularly vulnerable to a credit crunch since almost 60 per cent of its debt was short-term and borrowed from secondary financial institutions.

The collapse of Haitai would add to further pressure on Korean banks, which are suffering from mounting bad loans, because only a third of its bank loans were collateralised, according to Cho Hung Bank, the main creditor for Haitai.

Haitai blamed its financial problems on heavy losses at Haitai Heavy Industries, which it acquired in 1983 during a government-led restructuring of insolvent companies following Korea's last big recession.

But analysts said Haitai had compounded its financial troubles by excess investment in electronics and retail businesses during the 1990s as it sought to diversify its operations. These new businesses have not performed as well as expected.

Kia Motors is today expected to resume production after a 10-day strike over the government's takeover of the company AP

Market jitters will test Brazil's power sell-off

By Geoff Dyer in São Paulo

The credibility of Brazil's exchange rate policy following the turmoil in global financial markets will face a crucial test on Wednesday when the state of São Paulo tries to privatise CPFL, an electricity company.

The planned sale of CPFL, for a minimum price of $1.8bn, will provide the first indication of whether the volatility in equity markets over the last 10 days will affect long-term investment into Brazil.

Brazil has suffered particularly harshly from the financial market jitters because of concerns that its large current account and budget deficits might force the government into a devaluation. Share prices on the São Paulo market have fallen 31 per cent since October 22 and the government doubled interest rates on Thursday to maintain confidence in the currency.

David Zylbersztajn, São Paulo state energy secretary, confirmed on Friday that the auction would go ahead as planned. A total of 43 entities have pre-qualified to bid for the 57.6 per cent of CPFL up for sale.

The international firms on the list include Belgium's Tractebel, Chilectra of Chile and AES of the US. Brazilian bidders could include VBC, the consortium made up of Grupo Votorantim, the country's biggest family-controlled group, Bradesco, Latin America's biggest private sector bank, and Camargo Correa, the construction company.

The Brazilian government argues it can easily finance its growing current account deficit – currently about 4.5 per cent of GDP – because of strong inflows of direct foreign investment, led by a privatisation programme expected to raise more than $80bn by 1999. Previous privatisations in the energy sector have seen foreign companies paying huge premiums.

A high bid for CPFL would ease fears that the stock market volatility will damage privatisation inflows. Until last week, analysts had predicted the auction would raise up to $3bn, at a premium of 50-70 per cent.

Alexandre Fernandes, analyst at Bozano, Simonsen in Rio de Janeiro, said that although domestic bidders now faced a higher cost of funds, the presence of several foreign companies, who are interested in the Brazilian energy sector's long-term potential, would ensure a high premium for CPFL.

Several analysts said that the price would be lower than expected as the increase in perceptions of Brazilian risk over the last fortnight would reduce the number of bidders.

CPFL, which is Brazil's fourth-largest electricity distributor, had sales of $1.65bn in 1996 and made net profits of $114.5m.

Brazilian volatility, Page 25

Barclays hopes for BZW deal by tonight

By Jane Martinson, Investment Correspondent

Barclays is to consider selling parts of the equities and corporate advisory businesses of BZW if Swiss-American investment bank CSFB fails to make a satisfactory bid for the whole by the end of today.

Under an agreed timetable, CSFB is expected to put a price on the businesses being sold by tonight. The bank is the last remaining bidder for the whole of BZW out of more than 20 which initially expressed an interest.

Throughout the unusual sale process, Barclays has insisted that a potential buyer took over all the various parts of the investment bank it had put up for disposal. However, it made clear last night that there were still several options available if CSFB made an unacceptably low offer.

"There were a lot of expressions of interest for parts of the business," said a senior Barclays executive. Several predators have expressed an interest in buying the bank's Australian business.

Two US banks – Bankers Trust and Donaldson, Lufkin and Jenrette – pulled out of the initial auction last week. Their withdrawal prompted speculation among rival investment bankers that Barclays would be forced to accept a lower price from the sole remaining predator.

The group has been criticised for its handling of the sale of BZW, which it put up for sale a month ago without an agreed buyer.

CSFB was understood to have spent the weekend working out the details of a possible offer. As well as the issue of price, the group, which occupies a neighbouring site to BZW in London, is likely to consider how to keep the best BZW staff.

Barclays offered BZW traders and dealers "golden handcuffs" in the form of guaranteed bonuses when it announced the sale, but valuable staff could still leave.

Any deal is likely to be complex, partly because of the nature of the businesses to be sold. Barclays argued that it was forced to sell the businesses in this way because of the complexities of dividing their administration from the rump of BZW.

The process prompted one senior Barclays executive to say yesterday: "I don't think it's 100 per cent certain that a deal will be done by Monday."

Amvescap aims for full listing on NYSE

London-quoted fund management group wants US identity to change 'foreign stock' perception

By Jane Martinson, Investment Correspondent

Amvescap, the independent fund management group, is campaigning for a full listing in New York as well as in London to increase liquidity in its shares.

The group, which has $191.8bn in assets, is optimistic that the New York stock exchange will allow it to list, even though regulations state no group can operate with a full dual listing. Amvescap's shares are currently traded as American Depositary Receipts – paper that trades in lieu of underlying shares – in the US.

Bob McCullough, chief financial officer, said: "The NYSE has given us reason to be optimistic." He added that the issue was "one of the top priorities" of the NYSE chairman.

Michael Perman, company secretary, said using a full listing rather than ADRs would change the perception that Amvescap was a "foreign stock" among US investors.

Amvescap trades 90,000 shares a day in New York compared with between 2m and 3m in London.

Few US analysts cover the stock in spite of the fact that almost half its shareholders are based in the US. Amvescap also earns 90 per cent of its revenues in the US.

The Atlanta-based group is domiciled and listed in the UK for mainly historical reasons. It was formed from the takeover of Invesco, a US fund manager, by Britannia MIM, a UK company, more than 10 years ago.

The dominance of the US was crystallised with Invesco's $1.6bn acquisition of AIM management group, the US retail fund manager, this year.

The group's irritation at its lack of liquidity in the US has been exasperated by what it regards as onerous tax burdens in the UK. Mr McCullough is keen for the UK government to abolish advance corporation tax, which makes any plans for a buy-back expensive.

Amvescap is likely to consider a buy-back late next year when – under the terms of the takeover agreement – AIM investors are able to sell part of their shareholding in the newly formed company. Mr McCullough said investors might seek to offload up to 75m shares.

While the group is keen to maintain its UK listing, Mr McCullough warned that the existence of ACT and the threatened abolition of the foreign income dividend could make the group reconsider its position.

"We would obviously have to look at the domicile issue, particularly if there was no change [to the tax system]," he said.

The negotiations with the New York exchange are expected to continue through to the end of next year. A spokesman for the exchange said ADRs acted as ordinary shares in spite of their separate status.

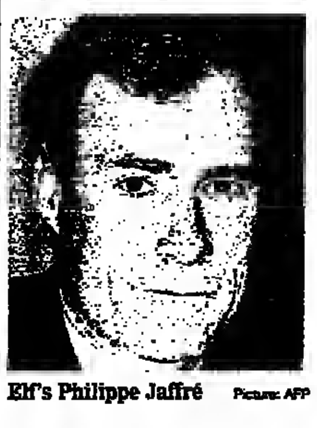
Foreign investors raise stakes in French companies

By David Owen in Paris

Foreign ownership of the share capital of Elf Aquitaine, France's largest industrial company, has reached about 50 per cent in one of the most striking illustrations of the changing structure of French capitalism.

Foreign cash has recently poured into French equities, attracted by an increasing emphasis by French corporations on investor interests.

The prospect of a national figurehead such as Elf being majority foreign-owned may create political controversy in a country where aggressive Anglo Saxon-style management practices are still viewed with suspicion.


Elf's Philippe Jaffré Picture: AFP

But it will have little, if any, impact on the way the company is managed. Philippe Jaffré, Elf's chairman, is in the vanguard of a new wave of French managers who have placed a greater emphasis on shareholder value.

In September, the company set new profitability targets, committing itself to securing a return on capital employed of 13 per cent over the next five years, up from 6.5 per cent in 1996. The French state sold the bulk of its remaining 9.85 per cent stake in the group nearly a year ago.

While the proportion of Elf shares in non-French hands is one of the highest among French corporations, foreign ownership of French blue chip stocks has been rising inexorably. The position of Total, the other big French oil and gas company, is similar to Elf: 47 per cent of Total's share capital is owned by foreigners.

Jean-Hugues de Lamaze, French strategist with Credit Suisse First Boston, attributed the trend in part to the "more internationalised" business profile adopted by many large French companies: "Some of the names have become a bit more well-known abroad. I would guess foreign institutions account for not far off 50 per cent of the volume traded on a normal day on the French stock market."

James Cornish, European markets strategist for NatWest Markets, said the number of French shares held by other French companies had fallen because of the unravelling of the so-called "noyau dur" system of cross-shareholdings. He added that foreigners regarded French equities as an attractive long-term investment.

Much of the increase in foreign ownership of Elf shares occurred last year. By the end of 1996, foreign institutions had 46 per cent of the company's share capital compared with 35 per cent a year earlier.

Proceeds from £400m Rolls-Royce sale could be used to purchase armoured vehicles division

Vickers looking at GKN defence arm

By Virginia Marsh in London and Ralph Atkins in Bonn

Vickers, the engineering group, is in talks to acquire part of the defence business of its smaller rival GKN and is also close to winning contracts for Challenger 2 tanks from Oman and Qatar.

Vickers hopes to raise more than £400m ($664m) from its Rolls-Royce luxury car maker, which it put up for sale last week.

Observers said yesterday that its purchase of GKN's armoured vehicles division – which has a slim order book – could be weeks away, with the two sides down to negotiating the price.

GKN would not comment on the reports, except to say there was a "certain logic" in the two businesses coming together, including through a joint venture. The company has indicated recently that it regards the division as non-core.

Analysts say it would be opportune for GKN to sell the business before the award of two large forthcoming defence contracts, while Vickers said last week it aimed to strengthen its defence interests.

Vickers and GKN – which also owns the Westland helicopter business – are part of rival consortia bidding for orders for 3,400 multi-role armoured vehicles or 'battlefield taxis' for the British, French and German armies, and for 1,600 Tracer reconnaissance vehicles for the US and British armies.

Companies not on the winning team for either order will face the prospect of surviving on niche business, especially in export markets.

Europe's armoured vehicle industry is under pressure to rationalise because European armies are buying fewer tanks and armoured cars following the end of the cold war.

On Rolls-Royce, analysts still see BMW and Daimler-Benz as the front runners, despite a public denial from the latter.

Commenting on reports it was interested in acquiring Rolls-Royce, Daimler-Benz said at the weekend it had not seen details of the sale offer. It added that its own plans, announced earlier this month, for a new luxury Mercedes-Benz car, the Maybach, showed that "in this segment we could go our own way". For these reasons such an acquisition was not on the agenda "at the moment".

Daimler-Benz is also seen as unwilling to get into a bidding competition with BMW, which is considered to have a good negotiating position because of its engine supply contract with Rolls-Royce.

MEPC plans £300m disposal

By Norma Cohen, Property Correspondent

MEPC, the UK's third largest property company, is expected to announce today that it is selling most of its underperforming small properties portfolio to GE Capital for about £300m ($498m).

The sale, one of the UK's largest portfolio transactions in recent years, comes just weeks after MEPC announced it would sell its Australian and US businesses and return at least £300m of the sale proceeds to shareholders.

MEPC is under pressure from its largest shareholders to improve its overall performance which has lagged behind much of the sector.

The company is not expected to complete the sale of its Australian business until after the new year and the US business is unlikely to be disposed of before well into 1998.

A significant asset disposal will leave MEPC with substantial cash to reinvest in the UK property market before the current boom runs out of steam. It is not expected that sale proceeds from the smaller properties will be distributed to shareholders.

The sale of the small companies portfolio covers roughly 200 properties but will still leave MEPC with about £50m of assets in that category.

Smaller properties have historically proven troublesome for MEPC. While the entire property portfolio generated an internal rate of return of 7.5 per cent in the year ended September 1996, the small companies portion generated an internal rate of return of 4 per cent for the same period.

This compares with MEPC's current target of achieving an average annualised internal rate of return of 12.5 per cent over the next five years.

As of its last year end, a numerical two-thirds of MEPC's total property portfolio was invested in assets worth £5m or less, and over a numerical half in properties worth £2.5m or less.

WH Smith to sell The Wall

By Jane Martinson, Investment Correspondent

WH Smith, the UK retail group, kicked off its reorganisation strategy with the sale of The Wall, its US music retail business, over the weekend.

The group, which has come under pressure from shareholders to improve its performance, outlined its reorganisation strategy last month. It has now reached conditional agreement to sell The Wall to Camelot, a US mall-based music retailer for $47m (£28m).

Richard Handover, WH Smith's new chief executive, announced the group's decision to sell Waterstone's bookshops, The Wall and its 75 per cent stake in Virgin-Our Price, the UK music retail outlets, two weeks ago.

The decision to focus on the group's core business was seen as a direct riposte to restructuring proposals from Tim Waterstone, the bookshop's founder.

With the flotation of Waterstone's set for spring, the company said yesterday that the future of Virgin-Our Price was "the only issue to be resolved".

The group has until the summer of 1999 to either sell its 75 per cent stake or buy the 25 per cent still owned by Richard Branson, the group's founder, and then sell it to somebody else.

Ashley Ashwood

Under pressure from shareholders to improve performance: Richard Handover

Under the terms of the original sale agreement the business will keep the Virgin brand name.

WH Smith said it was pleased with the price agreed for The Wall, which has net assets of $48m. In the year to May 31, The Wall, which has 153 outlets in north-east America, broke even after making sales of $174m.

In addition, tax losses of about £10m will be crystallised.

EC directive on feeder funds set to anger UK groups

By Jonathan Guthrie

Proposals contained in a new directive from the European Commission on cross-border investment funds seem certain to anger UK investment companies.

The Commission is expected to open a consultation period this month on the directive, which is intended to make it easier for investment managers to sell funds across national borders.

However, the proposals, which are under consideration by the internal markets directorate, DG15, will not allow "feeder funds".

Such funds, favoured by several UK investment managers and the Association of Unit Trusts and Investment Funds, would be authorised locally, but would pass on all money paid in by local investors to a "master" fund established in another country.

Feeder funds could overcome the nervousness many European investors feel at investing in a foreign-registered vehicle.

But an EC official said: "Feeder funds are an American rather than European concept and normally member states are uncomfortable regulating structures they do not know."

"They would not be included in the directive. We would like to facilitate cross-border marketing by other means."

David Mossop, chief executive of Perpetual, a large UK unit trust manager, said: "I do not think feeder funds should be prevented."

"It is perfectly reasonable for us to put a French label on an essentially English fund as long as we tell customers what the charges and structure are."

DG15 also wants to introduce much tighter qualifications for investment managers allowed to sell across borders: at present the emphasis is on the suitability of the funds themselves.

DMG gains Hungarian radio station in Ft4bn bid

By Anatol Lieven in Budapest

Daily Mail Group (DMG) Radio of the UK has succeeded in a bid for a seven year concession for the Hungarian commercial radio station Danubius.

DMG is the leading partner in OK Radio, which also includes the Radiotrust Investment Fund from Britain, Hungary's OTP Bank and four radio personalities from Danubius.

The price paid is by far the highest so far for any east European radio channel. OK Radio will pay around Ft4.2bn ($21.3m) for the concession.

Some 30 per cent is payable immediately, with the rest as four annual instalments.

Nine other groups expressed an initial interest in the sale, but were frightened off by the high price tag. Even Charlie Cox, managing director of DMG, said earlier in the year that he feared that the station might prove a "poisoned chalice" at that price.

A seven year concession for another, new radio station was allotted to Hungaria Radio, a consortium which includes Emmis of the USA and Hungary's K&H Bank. They will pay Ft4bn ($20.3m).

The Hungarian regulatory authority ORTT, which was responsible for the sale, argued that the channels can expect advertising revenue of up to Ft1.3bn a year, leading to an annual profit of around Ft400m. Total Hungarian radio advertising in 1996 was worth Ft6.3bn, up from Ft4.17bn in 1995. It is thought to have grown steeply again this year.

Of the two stations, Danubius is regarded as the plum.

KNP BT surges as paper side makes recovery

By Gordon Cramb in Amsterdam

The papermaking business which KNP BT of the Netherlands is selling to South Africa's Sappi had an improved third quarter and last month began commercial shipments from its large new machine in Austria, the Dutch packaging and distribution group said yesterday.

The 91.5 per cent owned KNP Leykam, for which Sappi is paying Fl 1.5bn ($750m) book value, encountered strong demand for wood-free and other coated paper even during the summer months.

This allowed it to put up prices after a deep trough in the industry cycle, but profit margins remained under pressure as pulp prices rose too.

Operating earnings from the unit reached Fl 10m in the three months to September, a reversal from a Fl 7m operating loss in the same period of 1996 but nowhere near the Fl 108m seen in the equivalent quarter the year before.

After investing Fl 1.2bn in the machine at the Gratkorn site and other upgrades, KNP cut jobs and a year ago put the division up for sale. The eventual purchase by the South African pulp and paper producer is expected to be completed by the end of this year.

Net profits for KNP BT as a whole reached Fl 65m this time, up 71 per cent. Sales at Fl 3.8bn rose 16 per cent, and if adjusted for the effect of acquisitions and divestments the increase was only 9 per cent.

Its distribution side, comprising paper merchanting and office products, showed operating profits ahead 21 per cent to Fl 70m. This came in spite of a poorer result from its activities in graphic and information systems, where margins were hit.

A good outcome from the traditionally strong fourth quarter was expected in distribution and packaging.

NEWS DIGEST

Hugo Boss ahead at nine months

Hugo Boss, the German men's clothing company owned by Marzotto of Italy, said its net profits rose by about 20 per cent in the first nine months and would show a similar growth rate for the full year.

It expected sales to advance by about 13 per cent after a 15 per cent increase to DM944m ($548.5m) in the January to September period. The slightly lower full-year sales growth rate would reflect the earlier delivery of some winter items and the absence of a contribution from its Joseph & Feiss subsidiary in the US, which has been closed.

Boss will launch its first women's collection in January, following the presentation of its new men's gold collection. It is also pushing ahead with further shop openings in the US, western Europe, Asia and South America.

Andrew Fisher, Frankfurt

■ JAPAN

Nikon hit by tax rise

Nikon, the camera and semiconductor equipment maker, said weak consumer spending after Japan's consumption tax increase in April was a factor behind the fall in its interim net profits. Overall sales dropped 3.2 per cent to Y146.9bn ($1.22bn) over the six months to end September. Domestic sales were down 15 per cent to Y75.6bn, but export sales grew 8.5 per cent to Y76.2bn.

Pre-tax profits shrank 42 per cent to Y6.13bn, and net profits declined 55 per cent to Y2.64bn. A fall in semiconductor prices also depressed earnings.

Nikon said it expected a slightly better performance in the second half, but still forecast declining profits for the full year. It said net profits would slip 41.9 per cent to Y5.5bn, and pre-tax profits would fall 24.2 per cent to Y12.5bn.

Bethan Hutton, Tokyo

■ OIL REFINING

Mitsubishi Oil falls into the red

A price war at Japan's petrol pumps has pushed Mitsubishi Oil, the refiner and distributor, into the red for the first half. Deregulation has led to intense competition in certain regions, with lower petrol prices all over Japan.

Mitsubishi Oil reported a net loss of Y11.7bn ($97.3m) for the April to September period, compared with a Y1.1bn net profit for the same period time last. A pre-tax profit of Y2.57bn in 1996 turned into a Y11.08bn loss this year, on sales up 0.6 per cent to Y519.6bn.

The price war is starting to ease and Mitsubishi also said it planned to make cost cuts of Y6.5bn in the second half, which should help it break even for the six months. However, it did not expect to make it back into the black for the full year. The full-year forecast is for a pre-tax loss of Y11bn, against a loss of Y8.28bn, and a net loss of Y14bn, compared with the previous year's net loss of Y9.61bn.

Bethan Hutton

■ GLASS

Asahi ahead despite sales dip

Asahi Glass, one of the world's largest glass manufacturers, reported a 5.6 per cent improvement in first-half profits in spite of sluggish sales, which slipped 0.3 per cent to Y432.8bn ($3.6bn). Pre-tax profit grew 4.7 per cent to Y15.1bn and net profit 5.6 per cent to Y10.0bn.

Asahi said market conditions were difficult during the six-month period, with a stagnant economy and the consumption tax increase affecting both general consumer spending and housing investment.

For the full year, Asahi forecasts a 5.1 per cent increase in net profits to Y20.0bn, on sales down 1.5 per cent to Y890.0bn. Pre-tax profits should grow 2.3 per cent to Y31.0bn.

Asahi declared an interim dividend of Y4.5 and expects to pay a final dividend of the same amount, together with a special Y1 dividend to mark the company's 90th anniversary.

Bethan Hutton

■ CZECH REPUBLIC

Utility falls 51%

CEZ, the largely state-owned Czech electricity utility, has reported a 51 per cent fall in unaudited net income for the first nine months to Kc4.1bn ($124.3m).

The company has made a Kc1.87bn provision for unrealised exchange rate losses following the depreciation of the koruna in May. It predicted that profit for the full year would be between Kc4.5bn and Kc5bn, compared with its forecast at the end of 1996 of Kc6.1bn.

Revenues were 2 per cent down at Kc39.3bn because of slower economic growth and flooding in July, a fall in market share and only modest rises in rates to regional distribution companies.

Operating expenses rose 10.4 per cent, largely because of a 20 per cent increase in depreciation, but other expenses rose by Kc2.1bn because of exchange rate losses.

Robert Anderson, Prague

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COMPANIES AND FINANCE

Vietnam bank ratings upgraded

By Jeremy Grant in Hanoi

Thomson BankWatch, the bank rating agency, said it bad npgraded the short-term, local-currency ratings of six Vietnamese banks, inclnding three of the country's largest, reversing s downgrade after only two months.

The country's nascent banking system was hit earlier this year by s series of letter of credit (LC) defaults, many the result of fraudulent trade deals in Ho Chi Minh City.

International confidence in Vietnam was further hit in July when Vietcombank, the country's biggest state-owned bank, refused to honour a batch of LCs.

Thomson BankWatch said its decision was prompted "in part by the disclosure of additional information regarding the nature and the scope of the letters of credit problem and related concerns".

It had also been encouraged by a recent government decree insisting that banks pay debts. "The developments have gone some distance to restore our confidence in the ability of the Vietnamese government to manage and defuse s potential banking crisis," it said.

Vietcombank was among the banks upgraded. Thomson BankWatch said lt appeared the bank was current on all outstanding LCs, bar s few "potentially justifiable exceptions".

However, it did not say wbether it had confirmation that the bank's many provincial branches – frequent defaulters regardless of policy at beadquarters – had also cleared their debts.

German export credit agency Hermes two weeks ago confirmed it had withdrawn export credit cover for Vietcombank, citing problems over unpaid LCs.

Hanoi bas been under pressure to bail out defaulting banks using modest foreign exchange reserves of about $2bn. Many owe sums that far exceed their assets.

Thai bank to raise capital

By Ted Bardacke in Bangkok

Siam Commercial Bank, Thailand's fourth largest, is planning to more than donble its registered capital from the current Bt4bn to Bt10bn ($244m).

It is the nintb of Thailand's 15 commercial banks to announce a capital increase this year. But with minority shareboldets and foreign investors wary about buying into Thai institutions following the financial crisis that has hit the country, only one capital increase has been successful.

Siam Commercial said it would offer a rights issue of 127m new shares at Bt47 per share, a dramatic discount to Friday's closing price of Bt78.50.

Shareholders subscribing to the rights issne would also receive a free warrant.

A further 50m shares will be offered at an undetermined prica in a private placement to institutional investors, which have not been named.

King Bhumibol, a shareholder in Siam Commercial Bank

Analysts will watcb closely bow the capital-raising exercise fares. At the end of June, 26.2 per cent of the bank was owned by the Crown Property Burean, which ls known to be adverse to cash calls, while 3.5 per cent was directly owned by King Bbumibol Adulyadej, Princess Galyani and the Privy Purse.

Ths Crown Propsrty Burean also may face a rights lssne by Slam Cement, where it is a big shareholder. Siam Cement, facing at least Bt20bn in foreign exchange losses in the third quarter, also owns 4.9 per cent of Siam Commercial Bank.

The Ministry of Finance, which has agreed to be the buyer of last resort of a Bt5bn rights issue at Krung Thai Bank, owns 4 per cent of Siam Commercial.

Siam Commercial said the capital increase would lift its capital adequacy ratio to 11 per cent. It also said the move would complement the Bt70bn increase in the bank's deposits during the third quarter. Thai depositors have been flocking to the country's bigger banks in the wake of the devaluation of the Thai baht.

Analysts said that Siam Commercial also faced problems at Dhana Siam, lts finance company affiliate, which also needs new capital. Merrill Lynch estimates that the bank's proportion of non-performing loans will more than double to 16 per cent by the end of next year.

Third-quarter rise for Air Canada

By Scott Morrison in Vancouver

Air Canada, the country's largest carrier, has reported third-quarter earnings up 21 per cent to C$181m (US$128m), its largest quarterly profit, on strong passenger rsvenue growth for domestic and international routes.

The airline said operating revenues increased 17 per cent to C$1.62bn on the strong performanca of its passenger, cargo and other business segments. Passenger revennes increased 16 per cent to C$1.36bn due to a 10 per cent growth in available seat miles.

Domestic revenues rose 7 per cent, in spite of a slight drop in capacity, while international passenger revenues, including services to the US, grew 24 per cent.

The carrier said the country's strong economy boosted third-quarter passenger traffic by 11 per cent over last year.

Canadian Airlines, the country's second largest carrier, recently reported third-quarter net earnings up 24 per cent to C$106m, the highest quarterly profit in the corporation's history.

Air Canada's operating income reached s record C$284m, a 37 psr cent increase year-on-ysar: Its 17.5 per cent operating margin showed s significant 2.5 percentage point improvement and was one of the highest such margins among the big North American airlines for the quarter.

Net income nearly doubled to C$333m during the first nine months of 1997, from C$167m last time.

Operating income was C$352m, a C$147m improvement, in spite of four regional labour disruptions in tbe first quarter that reduced the total by an estimated $57m.

Nine-month profit fall at Czech bank

By Robert Anderson in Prague

Komercni Bank, the largest Czech bank, bas suffered a 63 per cent fall in unandited net profits in the first nine months of this year to Kc1.82bn ($55.15m).

The bank, whose 48.7 per cent state stake may soon be for sale, blamed the fall on slowing economic growth, the May currency crisis and extensive flooding in July.

Profits were hit by Kc1.8bn of unrealised losses on the bank'a securities portfolio since the rise in interest rates in May, and by a tighter market for loans. Interest income for the period to the end of September fell 1.5 per cent to Kc10.89m, compared with tha first three-quarters of 1996.

"The outstanding growth of previous years [is] giving way to a period of stabilisation characterised by a policy of caution and strengthening of provisions," the bank said.

Komercni is struggling to write off its portfolio of bad loans – the bulk of which is accounted for by Kc55bn worth of loans for whicb no interest has been paid for a year.

Of the Kc55bn of loans, only some Kc17.9bn has been covered by provisions. Provisioning as a percentage of classified loans has fallen from 28.5 per cent st the half year to 26.9 per cent.

Capital adequacy at the quarter-end was 10.23 per cent using BIS methodology, down from 10.33 per cent at the half-year stage. This will deteriorate furtber as the bank comes to grips with its bad loan portfolio.

The cabinet will consider privatisation next week. Ivan Pilip, finance minister, and the bank's management favours a sale to a group of foreign investors.

Casino battle may extend to new year

By David Owen in Paris and Emma Tucker in Brussels

The battle for cootrol of Casino, the Frencb supermarket group, may spill over into the new year, following a decision by tbe Conseil des Marchés Financiers, the French stock market regulator, to postpone the closing dates of the rival bids until after an expected court ruling.

The Conseil said the closing date for the hostile offer by Promodès, anotber retailer, would be January 30, while a white-knight bid by lts competitor Rallye would close on February 20.

Meanwhile, the bid by Promodès was approved by the European Commission after it jndged the deal would not harm competition in the European Union's single market outside France.

"The Commlsslon bas found that even though the buying power of tbe new entity vis-à-vis its suppliers would be very significant in France, it will not threaten to create or reinforce a dominant position in the common market," it said.

However, it referred part of the merger proposal back to the Frencb competition anthorities, believing they are in a better position to assess the impact of the deal in France. The French anthorities have already estimated that a Promodès-Casino tie-up could lead to the creation or reinforcement of a dominant position in more than 50 local retail markets, including Paris.

The cbange of closing dates for the rival bids will enable the Paris court of sppeal to make a ruling on the offers wbile they are still outstanding.

This ruling is expected on January 16. Promodès last month filed a complaint arguing that Rallya had breached regulations by failing to outbid a revised offer by Promodès. Rallye immediately counter-sued on several grounds, including thet its bid was higher than thet of its rival.

NEWS DIGEST

Usinor to make statement today

Usinor, the French steelmaking group, has promised to make an "important" announcement today following a week that saw its shares fall beavily on the Paris stock market.

Francis Mer, chairman, is to "address important developments in the life of the company", the group said. The group's shares ended the week at FFr95.50, unchanged on the day, but down 14 per cent from their price of FFr111.50 at the end of the previous week.

The company said in September it was considering opening talks on possible co-operation with Cockerill Sambre of Belgium, in a move that would mark a continnation of the process of consolidation among European steelmakers.

"Our balance sheet can easily cope with a little more debt," Mr Mer said at that time. "After our Spanish adventure, we are on the road again."

Usinor was the loser in the sale of a Spanish governmeot stake in Corporación de la Siderúrgica Integral to Arbed of Luxembourg.

David Owen, Paris

■ NATURAL RESOURCES

Noranda earnings up 50%

Noranda, the Canadian diversified natural resources group, has reported third-quarter net earnings up 50 per ceot from last year to C$77m (US$55m) due to stronger prices for zinc, copper and aluminium.

Operating earnings st the group's mining and metals unit more than tripled to C$74m in the third quarter, which the group attributed to higher metals prices, combined with improved margins and volumes at the metallurgical operations.

Earnings from forestry products operations, however, dropped from C$22m to C$14m as a result of lower prices for most products. Third-quarter oil and gas operating earnings were also down, from C$14m to C$9m, mainly due to lower prices.

Noranda's third-quarter revenues advanced by 21 per cent to C$2.7bn, while expenses jumped 20 per cent to C$2.6bn and casb-flow from operations increased 28 per cent to C$560m. Earnings for the first nine months of 1997 were C$197m, down from C$218m the year before.

Scott Morrison, Vancouver

■ BREAKFAST CEREALS

Higher global sales lift Kellogg

Kellogg, the US breakfast cereal maker, said net income jumped 30 per cent in the third quarter as global sales volume rose 11 per cent.

The nation's largest breakfast cereal maker said earnings rose to $207.2m, or 50 cents a share, in the quarter, including charges of $6.6m, or 2 cents s share.

The result compared with $159.5m, or 38 cents a share, last time – which included charges of $21.3m, or 5 cents a share.

Excluding charges, Kellogg's third-quarter results of 52 cents a share beat analysts' average forecasts of 49 cents a share. Sales rose 7 per cent from $1.68bn to $1.8bn.

"We achieved strong third-quarter growth in cereal volume in the United States and Latin America, and continned double-digit volume growth from convenience foods," Arnold Langbo, chairman, said.

Reuters, Battle Creek, Michigan

FINANCIAL TIMES
MARKETS
THIS WEEK

Global Investor / Peter Martin

The risks of deflation become clearer

Last week's market turmoil ended with equity and bond marketa only slightly changed. But there was e marked difference between the performance of the two categories of securities.

Overall, the FT/S&P Actuaries World index of equities is, in doller terms, just under 3 per cent lower than it was a week ago. Its largest single component, the US, fell by the same amount. So did the Pacific ex Japan. Europe performed better, falling only 1 per cant.

These are not particularly encouraging figures, but they are much more humdrum than the events of the week might have suggested.

What is striking, however, is the contrast with fixed income markets. In the US, the yield on 10-year Treasury bonds dropped from 6 per cent to 5.8 per cent. Yields fell in most other developed markets, too, except the UK, where the Emn effect was at work.

Normally, snch a bond market rally would also have helped equities. There are two possible reasons for the gap between the performance of the two markets, one more encouraging than the other. The more cheerful thought is that equity prices are merely adjusting themselves slightly towards levels that offer better value.

The more depressing thought is that the world may be entering a deflationary trap like that in which Japan has been ensnared for most of the 1990s. In such circumstances, equity prices are depressed and interest rates fall to historic lows. Japan was at it again last week. Equities fell nearly 4 per cent, to a level 30 per cent below the dollar index's 52-week high. Yields on the long bond beve fallen a quarter of a percentage point in the past month, to just under 2.5 per cent.

The thought that deflation may perhaps spread west doubtless lies behind the poor performance of such classic inflationary hedges as gold mining and real estate stocks. On the Morgan Stanley Capital International indices, they are the two worst performing global sectors over the past month.

Investment bank economists have spent much of the past week rebutting the "global deflation" thesis. There is enough expansionary impetus in the world economy, they argue, to offset any contractionary pressures from the crisis in parts of Asia. Indeed, the setback to the emerging markets of the Pacific rim is seen as helpful to medium term growth elsewhere, because it eases inflationary pressures in the developed economies and allows interest rates to stay lower for longer than would otherwise be the case.

That may be true at the aggregate level. But in individual industrial sectors, the deflationary threat is more potent. The economists at Goldman Sachs in London are not worried about the risks of global deflation, partly because they expect inflation to continue in service industries while remaining subdued in manufacturing. "It is quite possible to envisage a situation in which goods prices actually decline," writes Gavyn Davies of Goldman, "bnt consumer prices rise overall about 2 per cent per year. Indeed, that has been precisely the situation this year."

The performance of individual sectors of the global equity market bears out this divergence of expectations. Over the past month, the worst-performing sectors are those most vulnerable to the crisis in parts of Asia. Among them are raw materials companies (metals, forest prodncts, other materials) which will suffer from a downturn in demand from the region's factories. Other sufferers are companies that compete with Asian ootput, in such industries as electronics and cars. With devalued currencies and collapsing domestic demand, Asian factories will be more aggressive international competitors.

Only one global sector is ahead over the past month – energy equipment and services. Others which have done less badly than most are those deflation-resistant, domestically oriented service industries highlighted by Goldman Sachs: broadcasting, health care, transport, insurance, leisure, financial services, telecoms, utilities.

There is an implicit globalisation theme here. Companies which can be expected to prosper in the new era of diminishing barriers are those with inherent protection. They include those with strong global brands, which did so well earlier in the year; and businesses in sectors less exposed to cross-border competition such as services.

So even though the economists are probably right, and deflation is not a threat at an aggregate level, it remains so at the level of some individual industries. The overall surge in equity prices in recent years has ignored such fine distinctions, just as Monday's setback in prices punished the good along with the bad, the exposed together with the protected. Over the long run, however, the differences will emerge more clearly. The overall level of world equity prices may look little different, at Friday'a close, than at the close of the previous week'e trading. But the risks are clearer .

Total return in local currency to 30/10/97

	US	Japan	Germany	France	Italy	UK
	% change over period					
Cash						
Week	0.11	0.01	0.07	0.07	0.13	0.14
Month	0.47	0.05	0.27	0.28	0.55	0.60
Year	5.72	0.61	3.29	3.68	7.23	6.48
Bonds 3-5 year						
Week	0.71	0.21	0.35	0.70	0.20	0.17
Month	1.23	0.82	–0.21	–0.40	0.10	0.02
Year	7.60	4.34	4.93	4.60	12.96	8.40
Bonds 7-10 year						
Week	1.20	0.96	0.81	0.87	–0.26	0.12
Month	2.00	2.29	–0.20	–0.39	0.11	–0.23
Year	9.24	10.04	9.88	8.69	22.64	13.18
Equities						
Week	–5.0	–5.0	–6.3	–3.6	–8.9	–3.8
Month	–4.3	–9.0	–10.3	–8.3	–8.1	–7.8
Year	31.7	–15.6	36.6	30.4	59.9	23.0

Source: Cash & Bonds - Lehman Brothers. Equities-© FT/Extel Index Unit. The FT/S&P Actuaries World Indices are jointly owned by FT-SE International Limited, Goldman Sachs & Co. and Standard & Poor's.

COMPANY RESULTS DUE

Mitsubishi looks to weak yen for comfort

Mitsubishi Motors of Japan is expected on Friday to report parent pre-tax profit for the first half to September of Y17bn-Y21bn ($139m-$173m), compared with Y21.3bn last time.

Analysts say the key issue is the extent to which the yen's fall helped to offset weak domestic sales.

■ **KLM Royal Dutch Airlines** is expected tomorrow to announce net profit before exceptionals of Fl 321m-Fl 420m ($162m-$212m) in the second quarter to September up from Fl 258m a year earlier.

The forecasts excluda expected extraordinary gains from the phased sale of KLM's shares in Northwest Airlines of the US, the first tranche of which brought in proceeds of Fl 324m out of a total expected Fl 1.17bn.

Total fuel costs will rise slightly because of higher consumption, with the drop in fuel prices offset by the dollar's appreciation. Wage costs will rise because more staff are needed to deal with increased passenger traffic.

Nonetheless, KLM's operating margin should widen to 13 per cent in the second quarter (6.4 per cent).

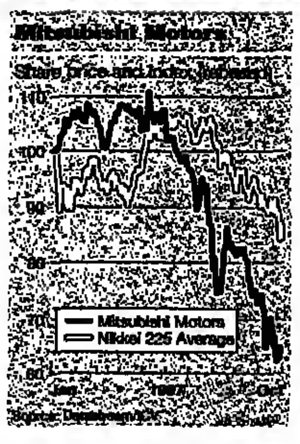
■ **British Airways'** interim results on Wednesday are expected to show pre-tax profits of £390m- £420m ($647m-$697m), against £470m last time.

The drop is the result of the strength of sterling and the £125m cost of BA's cabin crew strike in the summer. Analysts will want news of progress on the planned alliance with American Airlines, which is being examined by regulators in Brussels and Washington.

■ **Marks and Spencer** reports interim pre-tax profits tomorrow, forecast et between £460m and £480m. Questions will be asked about the group's plans for home shopping, progress on the stores ecquired from Littlewoods and the impact of foreign exchange movements on profits.

■ **Thames Water** reports interims tomorrow. SBC Warburg is expecting pre-tax profits of £195m (£188m), earnings per share before exceptionals of 43.9p (37.9p), and a 12 per cent rise in the dividend to 12.5p.

The market will be looking for an assessment of the cost of complying with the regulator's tough leakage reduction targets, as Thames has the highest leakage rate in the sector.



■ **Whitbread**, the brewing and leisure group, opens the winter results season for pubs and brewers on Wednesday. Pre-tax profits for the first half will rocket to £196m, 10 per cent up on last year's £177.5m.

David Thomas will be presenting his first set of results as chief executive.

■ **Scottish Power**, the Glasgow-based multi-ntility, is expected on Wednesday to report a 40 per cent rise in interim pre-tax profits to about £235m.

The result will be flattered by a full half-year contribution from Southern Water which was consolidated for only part of the previous corresponding period. An interim dividend of about 6.7p, up 8.6 per cent, is expected.

■ **Mercury Asset Management**, the UK's largest pension fund manager, reports interim results on Thursday. Analysts will be interested in the group's international bnsiness after it grew strongly in Germany and Japan last year.

Fluctuating performance earlier this year is unlikely to have significantly dented new business, which is expected to be about £3bn-£4bn.

Pre-tax profits of between £85m and £95m are forecast for the six months to September 30, up from £81.8m last time.

■ **Royal & Sun Alliance** is expected on Thursday to report nine months operating profits of £719m to £745m. Formed by the merger of two composite insurers in 1996, it has not yet published a pro forma year ago comparison.

Analysts say several one-off events, from flooding in Scotland and damage to homes on the Caribbean island of Montserrat, are likely to have limited any improvement.

Some analysts think thet management roles are not well enough defined. The group has both a chief executive and a deputy executive chairman.

■ **Boots** is expected to turn in pre-tax profits of between £245m and £250m at its interim results on Thursday, against last year's £236m.

The figures will have been held back by a number of exceptionals, such as £16m interest on the payment of the special dividend. Attention will be focused on the underlying sales at Boots the Chemists.

■ **Unilever** is expected to report flat third-quarter pre-tax profits of £814m on Friday . The figures will break out the contribution made last year by the speciality chemicals business, sold to ICI in May for £4.9bn.

Operating profit on the continuing businesses is expected to show healthy growth, with continuing improvements in European margins.

The fine summer in Europe will have boosted ice cream sales, adding significantly to profits in a business with largely fixed overheads.

INTERNATIONAL EQUITIES By Vincent Boland

Offerings in a gyrating market

Despite last week's stock market gyrations, the market for new equity offerings remains surprisingly robust.

Aside from the decision by Volkswagen, the German car maker, to delay its rights issue, there were no other postponements of large offerings, while the pace of US initial public offerings (IPOs) showed little sign of slowing down.

An indication that the European privatisation market remained relatively unscathed by the turmoil came with the decision by the Portuguese government to proceed with the sell-off of Brisa, a motorway operator.

It announced an indicative prica of from Es4,100 to Es5,000 (£14.33 to £17.48) a share – a range that leaves plenty of scope for market volatility – for its planned sale of up to 30 per cent of the company.

Austria'a state privatisation agency set a final price of Sch505 (£25) per share for the sale of 44 per cent of Austria Tabak, raising about $390m (£235m).

Bankers said there was strong domestic retail interest in the issue but noted that it was cautiously priced, in the lower half of the indicative range of between Sch475 and Sch550.

A secondary offering of shares in OTP, a Hungarian savings bank, was also successfully placed last week, in the teeth of the turmoil, although the shares dipped about 10 per cent in the immediate aftermath of the issue.

Meanwhile, two other big state sell-offs – of telecoms groups Telstra of Australia and Matav of Hungary – remain on track. Matav can be considered unfortunate to have unveiled its flotation and price range just before the markets began to falter. Its roadshow will test the remaining appetite of investors for telecoms issues in what has been an exceptionally heavy few weeks for new stock from that sector.

Bankers said the success of new issues in these more difficult markets rested on pricing. They noted that institutions remain cash rich, and that these investors might be bargain hunting if markets settled down.

In other words, it is now a buyer's market, having been a seller's paradise for much of 1997. What remains to be tested is the appetite of investors for new issues between now and the end of what, up to last week, had been an exceptional year for capital raising.

An intriguing aspect of the stock market jitters is the effect it will have on retail demand, which has played a key role in boosting European issues this year. If the interest in Tabak, and especially in Telstra, is a guide, ordinary investors may be willing to persevere where they spot e bargain.

However, some equity syndicate officials doubt whether retail interest will stand up if markets do not settle down. "Sensibly, one should be targeting more at institutions rather than retail in markets like this," one official cautioned.

What if the institutions are unwilling to buy? What issuers and advisers want to avoid in e difficult market is a situation where the syndicate is left with shares they would have difficulty selling.

That is understood to lie behind Volkswagen's decision to postpone its rights issue, after its shares plunged well below the rights price of Dm1,010 (£353). Syndicate members said there was pressure from underwriters for Dentsche Morgan Grenfell and Dresdner Kleinwort Benson to move to prevent a flop.

"We were all feeling a littla exposed – there was very little chance of a rights issue succeeding in this market," one banker said.

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MARKETS: This Week

NEW YORK By Tracy Corrigan

Last week's stock market correction appears to have delayed the need for a rise in US interest rates but it remains to be seen whether the Treasury market's popularity as a safe haven continues. Bond traders will be watching to see whether Treasuries continue to trade inversely to equities.

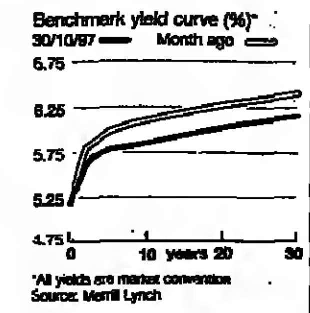
Analysts have differing views of the longer-term impact of last week's stock market correction, and the weakness in Asian markets.

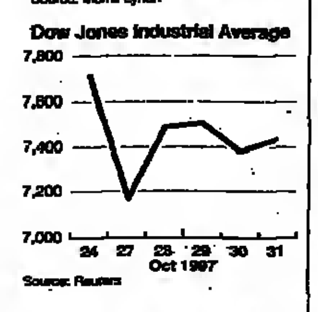
Philip Braverman of DKB Securities says: "A firming [at the November 12 FOMC meeting] is virtually precluded by the US stock-market drop and adverse emerging market developments. The next Fed move is likely to be an easing some time next year." Mr Braverman believes the weaker US stock market will prompt "a marked slowdown in US economic growth, promising even lower inflation and lower bond yields".

However, Robert DiClemente of Salomon Brothers does not believe the financial market developments of the last week have let the Federal Reserve off the hook, observing that Fed chairman Alan Greenspan "took only a small step back from the hawkish sentiment he expressed a few weeks ago".

He thinks strong domestic economic data may rule out further rallies, even if "near-term steady policy, combined with the anticipation of eventual drag from overseas and diminishing bond supplies may anchor US bond yields in current ranges near 6 per cent".

Key indicators this week are due on Friday, when October jobs data and consumer credit numbers are released.





LONDON By Philip Coggan

There is no secret about what traders in London will be hoping for this week; a bit of peace and quiet. The recent turmoil and whipsaw market movements have been enough to unnerve the calmest of investors.

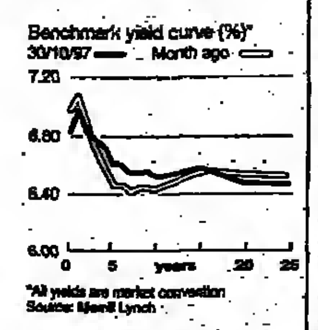
The UK is scarcely the centre of the storm; its economy is reasonably sound and its equity market did not look the most exposed. But it has been battered by Wall Street to the west and Asia to the east, and there has been no escape.

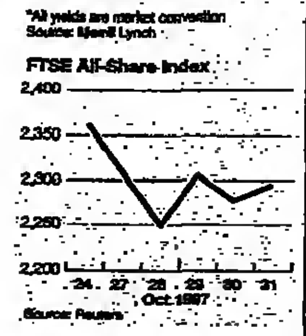
The main domestic focus this week will be the Bank of England monetary policy committee decision on interest rates, which will be announced on Thursday.

Three months ago, the consensus view was probably that rates would rise this month, but the stock market turbulence and signs of slower consumer spending have prompted some doubts. Nevertheless, short sterling futures are pointing to one more quarter-point rise this year.

Helping the committee in its deliberations will be figures on M0 money supply, consumer credit, the purchasing managers index and industrial production. The September consumer credit numbers are expected to be particularly weak, because of the effect of shop closures on the day of the Princess of Wales's funeral.

Corporate results have almost been forgotten in the market mayhem but there are important figures this week from Associated British Foods, Boots, BP, British Airways, Marks & Spencer, Mercury Asset Management, Royal & Sun Alliance, Shell, Unilever and Whitbread. Their views on the economy, the strength of sterling and the Asian crisis will be closely watched.





FRANKFURT By Andrew Fisher

The German stock market recovered some of its nerve at the end of last week, but few traders are betting that the volatile times are over. Even though both Wall Street and Hong Kong were looking less battered on Friday, the mood on world financial markets will take time to settle.

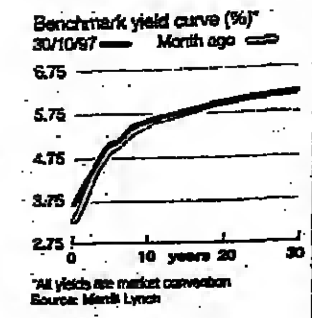
The German DAX index of blue chips ended marginally higher on Friday in electronic trading at 3,753.66. This still leaves it nearly 30 per cent up on the year, in spite of the decline in recent weeks. Analysts have now scaled back their estimates of where the DAX will be in a few months.

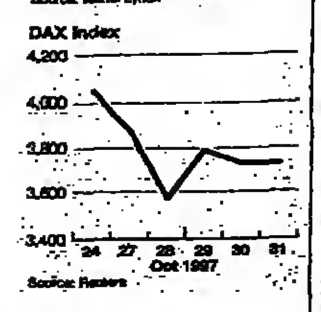
Hypo-Research expects a consolidation between 3,500 and 3,700 if the Asian markets remain relatively calm after the latest rout. The 4,000 level, already exceeded in the market euphoria earlier this year, should then again be in sight.

Gerhard Eberstadt, director of Dresdner Bank, said the DAX should be able to achieve 4,000 points in the first quarter of 1998. Developments in Asia had not altered the generally positive outlook for the world economy, he added. The German economy was also in good shape, in spite of the slow pace of reform.

The main German economic indicators due to be released this week are October unemployment figures, which are expected to remain stuck at a national rate of 11.2 per cent, and September order inflow and industrial production data, both of which are seen likely to rise.

Commerzbank will report its nine-month figures to close a bank reporting season which has seen sizeable profit increases for the period.





TOKYO By Bethan Hutton

Japan's traders have the day off today, but it is unlikely they will be able to relax fully with other world markets open.

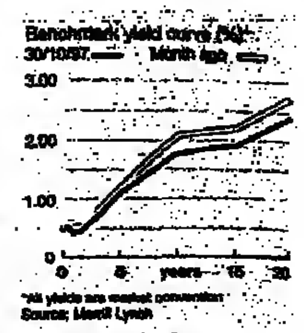
Market turbulence from all sides rocked Japanese markets last week, and there was little good news at home to turn the tide. The Nikkei index tested the 16,000 support level on Friday morning, and is unlikely to move into much safer territory this week.

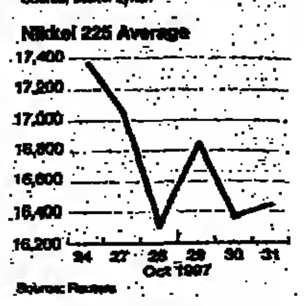
The yield on the key 10-year government bond slipped from 2.282 per cent to 2.251 per cent over the course of last week – after considerable fluctuations along the way. With substantial improvement in the state of the stock market unlikely this week, bond yields could continue to set new lows.

The main agenda for both stock and bond markets will probably continue to be set by world markets this week, with domestic factors playing a role on the edges.

Pronouncements from the government on the economy have become incrementally gloomier over the past week, with added concern voiced by the Ministry of International Trade and Industry about the impact of falling markets in south-east Asia on Japanese corporate performance and the domestic economy.

Depressed consumer spending in the wake of April's consumption tax increase is still one of the main dampening factors on corporate earnings and the economy in general, so the markets will be watching Tuesday's release of the household consumption survey for September for any signs of a better trend. They are unlikely to see them: the consensus forecast is for a further decline.





OTHER MARKETS Compiled by Jeffrey Brown

HONG KONG

Further volatility is expected this week, with China plays cootinuing to make some of the healthiest gains in a choppy trading environment, *writes Louise Lucas in Hong Kong*. The Hang Seng index finished a rollercoaster week 4.7 per cent lower after notching up one of its worst days on record with a 19 per cent fall on Wednesday.

Both H-shares and red chips were strong on Friday and are expected to remain so this week. An interest rate cut in China was largely ignored by the market, then in the grip of currency-inspired turmoil, and brokers said investors were now factoring it in.

China plays also suffered some of the biggest losses in the downturn, and helping the rebound is a reported influx of mainland money.

Also likely to be in favour are defensive plays such as utilities. Hongkong Telecom, which announces its interim results on Friday, will be closely watched.

Investors are likely to remain cautious abont the property and banking sectors, which dominate the blue chips. These have suffered the most since interest rates were raised earlier this month, and investors are looking for a swift return to lower loan rates before placing big buy orders.

The resistance level oo the Hang Seng index, which closed on Friday at 10,623.78, is seeo at 11,000.

PARIS

French equities ended a net 5.8 per cent lower after a week of fairly wild day-to-day swings for the CAC 40 index. Volume was high by recent standards, but the business was largely intra-market.

Wall Street and Asia are expected to continne to set the tone, although as the Paris bourse closed on Friday the lack of a breakthrough in the truck drivers dispnte had injected a worrying domestic niggle into investor sentiment.

Good reports last week from Axa-UAP and Générale des Eaux kept the flow of company results upbeat. Although this week's business confidence index may prove a shade less stimulating than recent numbers, brokers see little reason to doubt the fundamental support base for share prices.

AMSTERDAM

Local diversions to the upheaval in global equity markets may emerge for Dutch investors this week, with three components of the AEX index set to unveil quarterly results. Bumper numbers are widely expected when KLM reports tomorrow and there should be useful signals on Thursday and Friday from Royal Dutch and Unilever respectively.

The AEX index fell a net 3.3 per cent last week, so Dutch equities could do with some good news. Strong trading, positive currency factors and integration benefits are seen as providing KLM with high-flying second-quarter figures.

Oil sector enthusiasts will be hoping for stronger downstream and chemical margins to offset lower oil prices at Royal Dutch.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Ameritech (US)	Tele Danmark (Dk)	Telecoms	$3.2bn	Taking 40%
BAe (UK)	Units of Siemens (Germany)	Defence electronics	$512m	Defence consolidates
Kredietbank Lux (Belg)	Banco Urquijo (Spain)	Banking	$282m	70% stake
Caribiner Intl (US)	Visual Action (UK)	Communication services	$237m	Buyer's largest
Berkshire Partners (US)	Unit of Pentland (UK)	Electrical accessories	$173.5m	Non-core disposal
Koc (Turkey)/Peabody (US)/NRG (US)	Kangal (Turkey)	Power	$125m	Privatisation buy
ERS (US)	Telepanel (Canada)	Retail Services	$100m	Merger plans
Procter & Gamble (US)	Ssangyong (S Korea)	Consumer	$69m	Control planned
ABF (UK)	Guangxi Bo Hua (China)	Food	$21m	Joint venture
ABF (UK)	Glinojeck (Poland)	Food	$16m	Initial 41%

ATHENS STOCK EXCHANGE October 27th - October 31st 1997 GREECE

ASE INDEX	1488.53	P/E (after tax) 97e/96e	14.7/18.1	GDP (USD bn) 97e	120.31
%Chg (31.12.96)	59.46	EPS GROWTH (%) 97e	21.5	Per Capita Income (USD)	11,586
Yearly High	1808.85	P/E 97e / EPS GROWTH (%) 97e	0.68	Inflation Rate (% Y.O.Y, September '97)	4.90
Yearly Low	932.38	P/CE 97e/96e	11.7/14.3	October 12 M T-Bill rate (%)	11.30
WEEKLY VOL (USD m)	864.33	P/BV 97e/96e	3.1/3.7	1-Month Athibor (%)	44.47
%Chg (Prev. Wk)	97.99	Div. Yield (%) 97e/96e	4.3/3.3	GRD/US$ (October 31, 1997)	271.32
1 Y Wk Avg Vol. (USD m) 388.67				A.S.E. Market Capitalisation - 31/10/97 (USD bn)	35.44
				IPOs & Rights Issues (in USD m) Jan 1 '97-October 31 '97	1,784.30

COMMODITIES By Gary Mead

Mixed fortunes in Asia from El Niño

Australian grain farmers are talking of their miraculous escape from the worst ravages of the El Niño weather pattern; but those elsewhere in the southern hemisphere tell a different story, as delegates to a conference to discuss El Niño, scheduled to start in Manila on Thursday, will learn.

Unusually high temperatures in the Pacific ocean, linked by meteorologists to large-scale global climate disruptions, are the essence of an El Niño. This year's is set to be the biggest since that of 1982-83, which caused around $13bn of damage.

If Australian farmers have eluded disaster, others in Asia have been less fortunate. The many soft commodity disruptions being blamed on El Niño include:

- A 40–50 per cent collapse in the forecast 120,000 tonnes for this year's Malaysian cocoa production, according to the Cocoa Board; a 2.2 per cent drop in Malaysia's palm oil production, to 8.8m tonnes; and 60,000 fewer tonnes of natural rubber.
- Fish oil prices have recently soared in Europe, to as much as $620 a tonne, compared with $475 a tonne a year ago and a 10-year average to October of $350 a tonne. Key producers such as Chile and Peru have been badly affected by the higher ocean temperatures, and their combined fishmeal stocks were at a seven-year low of 205,000 tonnes.
- The National Food Authority in the Philippines has been sanctioned to import 850,000 tonnes of rice in 1998 as buffer stocks; unmilled rice harvest forecasts in the country have been reduced from 11.9m tonnes to abont 11.4m tonnes, although that is likely to be even further reduced in the run-up to Christmas, normally the peak time for El Niño events.
- More than 1.12m hectares of crops have been damaged in Thailand, particularly sugar and rice; estimates for the 1998 second rice crop have been reduced by 38 per cent, to 2.8m tonnes.
- Perhaps the most severe impact is being felt in Indonesia, which faces a 40 per cent drop in production of robusta coffee beans.

CURRENCIES By Simon Kuper

Prayers go up for a rebound on Wall St

Foreign exchange traders start this week as spectators. Moves in currencies are likely to follow events in the stock markets.

Last week the plunge in Wall Street dragged the dollar down more than 5 pfennigs against the D-Mark. Going into this week, jitters remain. If sentiment towards Wall Street weakens and capital inflows into the US shrink, the country's current account deficit would rise and the dollar would suffer.

The dollar was far from being the only victim of the turmoil in equities. Several emerging markets currencies enter this week stricken. The Thai baht ended Friday at a record low of Bt40.00/50 to the dollar, as the market started losing patience with Thailand's inability to come up with an economic rescue package.

The Greek drachma has come under attack, as speculators try to force its devaluation. The Thai and Greek authorities will be praying for a bounce in Wall Street this week, as that could calm global fears about other high-yielding assets.

But perhaps the biggest battle of the week will take place in Brazil. The country has come under pressure to devalue the real, widely seen as overvalued. Brazilian stocks plunged last week.

Carlos Menem, president of Argentina, is confident that Brazil will pull through. He reported a telephone call from Fernando Henrique Cardoso, president of Brazil, who told him: "Carlos, we have no doubts about this. If we devalue, then you'll have to devalue and who knows where we will end up?"

Mr Cardoso will do his best to ride out the attacks on Brazilian stocks. But he too will be keeping his fingers crossed for a recovery in Wall Street.

Economic data will be of secondary importance this week. However, the US non-farms payrolls data never pass unnoticed.

Figures for October, due on Friday, are forecast to show a rise of more than 200,000. The National Association of Purchasing Managers' index for October, released today, should also show a strong reading.

The Bank of England's monetary policy committee meets on Wednesday and Thursday. Few see it daring to test the markets' nerves by lifting interest rates.

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, October 31, 1997. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

		£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	7965.28	4750.00	2759.86	3948.45
Albania	(Lek)	248.798	147.175	85.5122	122.371
Algeria	(Dinar)	95.9307	58.8686	33.1001	47.3873
Andorra	(French Fr)	9.6523	5.7560	3.3444	4.7859
	(Sp Peseta)	243.754	145.360	84.4576	120.861
[illegible]					
France	(Fr)	9.6523	5.7560	3.3444	4.7859
Fr. Cty/Africa	(CFA Fr)	965.230	575.600	334.437	478.590
Fr. Guiana	(Local Fr)	9.6523	5.7560	3.3444	4.7859
Fr. Pacific Is	(CFP Fr)	182.014	108.542	63.0665	90.2466
Gabon	(CFA Fr)	965.230	575.600	334.437	478.590
Gambia	(Dalasi)	16.8843	10.0688	5.8502	8.3718
Germany	(D-Mark)	2.8862	1.7211	1	1.4310
Ghana	(Cedi)	3760.46	2242.50	1302.95	1864.65

		£ STG	US $	D-MARK	YEN (X 100)
Gibraltar	(Gib £)	1	0.5963	0.3465	0.4958
Greece	(Drachma)	456.142	272.015	158.047	226.175
Greenland	(Danish Krone)	10.9652	6.5309	3.8062	5.4466
Grenada	(E Carib $)	4.5277	2.7000	1.5688	2.2450
Guadeloupe	(French Fr)	9.6523	5.7560	3.3444	4.7859
[illegible]					
N'lnd Antilles	(A/Guilder)	3.0017	1.7900	1.0400	1.4883
New Zealand	(NZ $)	2.6884	1.6032	0.9315	1.3330
Nicaragua	(Gold Cordoba)	16.4105	9.7862	5.6860	8.1369
Niger Rep	(CFA Fr)	965.230	575.600	334.437	478.590
Nigeria	(Naira)	36.7007o	21.8860	12.7163	18.1974
	(Naira)	137.363m	81.9150	47.5946	68.1093
Norway	(Nor. Krone)	11.7393	7.0006	4.0675	5.8207
Oman	(Rial Omani)	0.6456	0.3850	0.2237	0.3201

		£ STG	US $	D-MARK	YEN (X 100)
Pakistan	(Pak. Rupee)(4)	73.7937	44.0060	25.5685	36.5893
Panama	(Balboa)	1.6769	1	0.5810	0.8315
Papua New Guinea	(Kina)	2.5331	1.5105	0.8777	1.2560
Paraguay	(Guarani)	3709.31	2212.00	1285.22	1839.20
Peru	(New Sol)	4.5444	2.7100	1.5746	2.2533
[illegible]					
Yemen (Rep of)	(Rial)	229.736r	137.000	79.6003	113.910
Yugoslavia	(New Dinar)	9.8924	5.8992	3.4276	4.9050
Zambia	(Kwacha)	2230.29	1330.00	772.762	1105.85
Zimbabwe	($)	21.3586	12.7375	7.4008	10.5906
ECU	(ECU)	1.4651	0.8737	0.5076	0.7265
SDR	(SDR)	1.20334	0.722642	0.420385	0.600701

Abbreviations: (a) Free rate; (m) Market rate; (o) Official rate; (r) Parallel rate (t) Tourist rate (u) Currency fixed against the US Dollar (v) Floating rate (1) Market rate now shown for Cuba (2) Name changed from Zaire on May 19th 1997, currency scheduled to change to Congolese Francs (3) Guinea-Bissau adopted the CFA Franc to replace the Peso on 1/5/97 (4) Pakistan Rupee devalued by 8% on 15/10/97: FT enquiries to Business Research Centre 0171 256 5130. Some data derived from THE WM/REUTERS CLOSING SPOT RATES & Bank of America, Economics Department, London Trading Centre. Enquiries: 0171 634 4365. To obtain a copy of this table by Fax from the Cityline service dial 0891 437001. Calls are charged at 50p per minute at all times.
Friday, October 31, 1997

MARKETS: This Week

EMERGING MARKETS: BONDS By Edward Luce and Samer Iskandar

Yield spreads of bonds to equities widen

Last week was sobering for those who thought that the investor base in emerging market debt had become more sophisticated.

Proponents of this view argued that the wave of indiscriminate selling during the Mexican tequila crisis in late 1994 and early 1995 was unlikely to happen again on the same scale.

But this is exactly what happened. Bond prices dropped by an average of about 25 per cent last week while J.P. Morgan'a index of emerging market spreads widened to more than 600 basis points from a recent low of 336 points. This obliterated the gains of the last 12 months.

Others, bowaver, argua that the emerging markets' lack of sophistication was obvious to anyone who cared to stop and contemplate the relentlesa tightening of spreads during the first six months of this year.

"Look," said one retrospectively incredulous fund manager, "we were snapping up the Republic of Kazakhstan at a spread of 250 basis points ovar US Treasury bonds. To a certain extent we are all victims of our own propaganda."

Many investors, therefore, see last week's sell-off as a necessary period of bloodletting following the over-exuberance of the past 18 months. Primary market spreads of less than 200 basis points on some Latin American corporate bonds simply did not reflect the risk that investors were being asked to take, say analysts.

Now that these same corporates are trading at spreads of between 500 and 700 basis points over Treasuries, does the market offer fairer value?

"If you are prepared to taka a long-term view then there are some real bargains around," said Mark Evans, president of Montpellier Asset Management in Boston. "But for the short-term investor, it is probably going to take some months before we see a genuine rally."

Part of the problem is thet new investors have been scared off by the volatility of the last few days.

Many insurance funds and global bond funds had only come to the emerging market sector in the aftermath of the Mexican devaluation crisis. For them, recent events have come as a genuine shock.

"The philosophy was: 'The mora risk you take the better you perform,'" said Lincoln Rathnam, president of Schooner Asset Management in Boston. "It was the strategy which worked in any market you looked at."

Until, of course, the market fell. Mr Evans said that last week's downturn was exacerbated by the fact that many emerging market investors were too highly leveraged.

"The psychology of tha emerging bond market is every bit as extreme as it used to be," said Mr Evans. "We gear ourselves like a bond market but we behave like an equity market."

For a week or so emerging market paper even appeared to be tracking the equity markets tick for tick.

If the New York Stock Exchange was closed, emerging market bonds would track the S&P future contract. When the Dow Jones Industrial Average index fell, emerging markets bonds fell and vice versa.

By the end of last week, however, it was apparent that this link had weakened. Average spreads, as measured by the J.P. Morgan index, continned to widen even as the Dow Jones appeared to be hitting a plateau.

"Emerging market bonds seem to have decoupled from US equities," said Helene Williamson, director at Foreign & Colonial emerging markets in London. "Everyone is now looking at Brazil to see if it is the next target in the firing line."

Robin Hubbard, director of emerging market research at Chase Manhattan in London, warned that a "potential source of concern would be a general withdrawal of funds from those countries which are most dependent on capital inflows".

Brazil is one example. Its widening current account deficit and the slow pace of economic reform havs suggested to many that it is the obvious next target for a currency attack.

It is hardly surprising, therefore, that Brazil's 30-year sovereign bond widened to a spread of over 700 basis points last Friday. "If Brazil is hit, then we could see a prolongation of this situation," said Mr Rathnam. "If not, then it makes sense to buy the stronger credits."

"Brazil is still facing some painful liquidity problems," said a senior emerging market trader in New York. "We have probably not touched the bottom yet, but when spreads have widened from 300 to 700 basis points, you have to take the view that some reassessment of risk has been priced in."

He also said the authorities were handling the crisis with determination. "The amount of foreign currency reserves they have spent to defend the currency is relatively limited," be added.

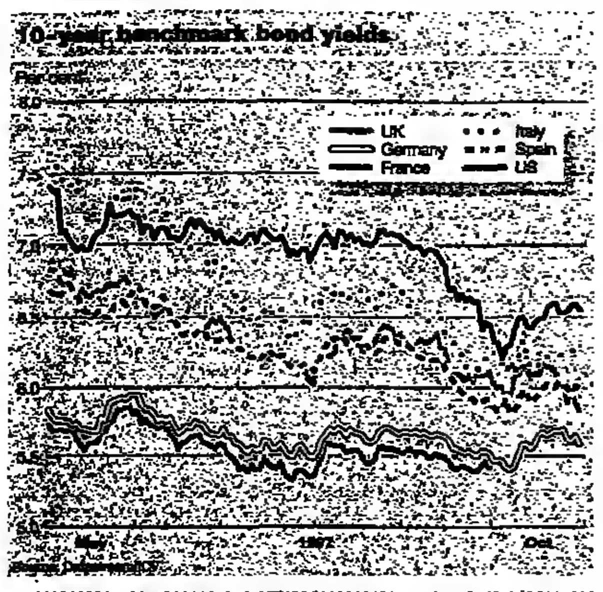
Ona hedge fund manager in New York also expressed optimism. "There could be more volatility in the short term, of course," he said. "But the market looks promising in the long term. If you take a long-term view, like we do, then this is a buying opportunity."

Cbase Manhattan's Mr Hubbard said: "Past experience has shown that once the crisis has passed, investors return quickly."

Weaker credits, however, could take longer to recover. Analysts believe tbe best short-term bets remain countries with the soundest fundamentals. Venezuela's 30-year dollar bond, for example, was trading at a spread of just 470 basis points over Treasuries on Friday.

In contrast with Brazil, Veneznela has a current account surplus. "There are signs that the market is becoming discriminate again," said Ms Williamson.

10-year benchmark bond yields

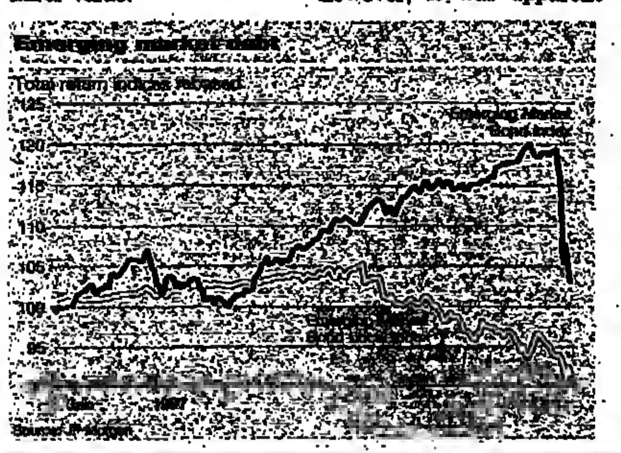


INTEREST RATES AT A GLANCE

	USA	Japan	Germany	France	Italy	UK
Discount	5.00	0.50	2.50	3.30	6.25	7.00
Overnight	n/a	n/a	4.25	n/a	6.81	n/a
Three month	5.20	0.59	3.63	3.48	6.58	7.25
One year	5.33	0.43	4.00	3.87	5.73	7.04
Five year	5.74	1.11	5.02	4.93	5.75	6.62
Ten year	5.84	1.82	5.57	5.81	6.25	6.54

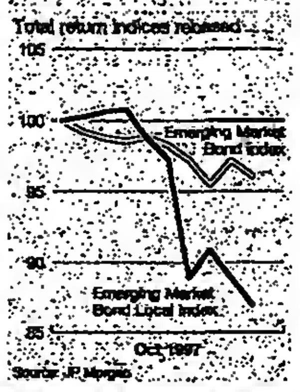
Source: Datastream

Emerging market debt



Source: JP Morgan

Volatile fortnight



Source: JP Morgan

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book-runner
US DOLLARS							
DCMT 1, 97-4, Class A(a)‡	700	Oct 2000	(a1,a)	100.00	-	-	Morgan Stanley DW
Bancaja Intl Finance‡	250	Nov 2002	(b)	99.935R	-	-	ABN Amro HG/Paribas
Nordic Investment Bank(b)★	200	Nov 2000	5.375‡	99.11	5.70	-	Yamaichi Intl(Europe)
MMCCT, 97-M, Class A(g)‡	637.5	Oct 2002	(g1)	100.00R	-	-	Salomon Brothers
City of New York(h)‡	200	Aug 2002	(h1,i)	99.89R	-	-	Goldman Sachs Intl
Republic of Portugal★	85	Nov 2001	5.77‡	100.00	5.770	-	IBJ/New Japan Secs
D-MARKS							
State of Saxony-Anhalt(c)	1bn	Dec 2017	(c1)	99.47R	4.997	-16(7¼%Oct02)	M Stanley/Salomon
Netia Holdings(d)	207.062	Nov 2007	11.00‡	65.198	10.71	+535(6¼%-07)	Merrill Lynch CM Bank
Euris Three(s)	122	Mar 2000	4.52	100.00	-	-	Deutsche Morgan G'fell
YEN							
Aurora Generale(e)‡	32bn	Nov 2004	(e1)	99.90	-	-	Daiwa Europe
Deutsche Bk, London(e)★‡	19.6bn	Nov 2007	(e1)	100.25	-	-	Deutsche Morgan G'fell
STERLING							
Health Mgmt(Carlisle)(l,n)	75.8	Sep 2027	7.181‡	100.00R	7.181	+65(8%-2021)	NatWest Markets
Haven Funding(o)	46.3	Sep 2037	8.125‡	110.6521	7.28	+80(8%-2021)	Hambros Bank
PESETAS							
FTH Hipotecaria VI, A(n)‡	42.875bn	Jul 2022	(n1)	100.00	-	-	Banco Santander/UBS
Republic of Portugal(m)	12bn	Jul 2001	(m)	101.00	-	-	Argentaria

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book-runner
FRENCH FRANCS							
Banque Solfecat	1bn	Nov 1999	(k)	100.031R	-	-	CCF/CCBP
BELGIAN FRANCS							
Hypo-G, Class A1(f)‡	5bn	Oct 2002	(f2)	100.00R	-	-	Bear Stearns/Generale
Hypo-G, Class A2(f)‡	4,485bn	Jan 2011	(f4)	100.00R	-	-	Bear Stearns/Generale

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. [illegible] on 1/11/02 at 105¼% [illegible] international tranche led by UBS. Average life (6% prepayment) 5.1 yrs. e1) 3-mth Libor +12bp. e2) Class B: Ptr1.075bn via UBS. f) Legal maturity: Jan 2018. f1) Av life: 2.2 yrs. f2) 3-mth Libor +11bp. f3) Average life: 9.1 yrs. f4) 3-mth Libor +24bp. f5) Class B: BFr525m, 8.3 yrs, 3-mth Libor +50bp, parR. g) MBNA Master Credit Card Trust. Legal maturity: 15/8/05. Average life: 4.94 yrs. g1) 3-mth Libor +11bp. g2) Class B: $56.25m, 3-mth Libor +27bp, parR, 4.94 yrs. h) Amortises annually from Aug 98: av life 2.64 yrs. h1) 3-mth Libor +25bp. i) Over interpolated yield. j) Amortises from Sep 03: average life 23 yrs. k) 3-mth Pibor +3bp. l) Long 1st coupon. m) 6 separate tranches of Pta2bn with coupons ranging from 6-6.30%. n) Backed by Japanese apartment loan contracts. Callable from Nov 04 at par. Legal maturity: 14/11/15. Average life: 3.2 yrs. n1) 1-mth Libor +22bp to Nov 04, then +55bp. o) Callable from Nov 99 at par. o1) Steps up from 3.5% - 6-mth Libor to 8% - 6-mth Libor. p) Secured on loans to 3 housing associations. Fungible with £154.8m. Plus 51 days accrued. Amortises from 2017. Average life: 27 yrs. s) Short 1st coupon. Note: Yields are calculated on ISMA basis.

EMERGING MARKETS: EQUITIES By Jonathan Wheatley

Brazil tops volatility league

Since stocks in Hong Kong collapsed on October 23, the São Paulo stock exchange (Bovespa) has demonstrated its familiar combination of extreme sensitivity to overseas events and innate jitteriness over local conditions by beating the world in volatility.

The Bovespa index fell 24.2 per cent in the first three days of the crisis, rallied 6.4 per cent last Tuesday, fell 6 per cent on Wednesday and 9.8 per cent on Thursday. It rallied again on Friday, rising 1.5 per cent, bringing its total fall since the crisis began to 30.6 per cent.

In part, such exhausting volatility reflects the Brazilian exchange's increased vulnerability to movements on overseas markets following the relaxation of restrictions on capital flows in recent years.

This effect was clear from the impact of international investors selling in Brazil – Latin America's most liquid market – to cover losses in Asia.

Domestic factors also played a part. One aggravation is Brazil's current account deficit, which has swollen to 4.3 per cent of gross domestic product. The government has faced persistent resistance in Congress to measures designed to tackle both this problem and a stubborn budget deficit.

In addition, many economists argue that the Brazilian real is overvalued and have warned of its vulnerability to speculative attack. Early last week, the signs were that speculators seeking fresh targets outside Asia had turned to Brazil.

This was more than enough to drive prices down, hut the rout was exacerbated by rumours that aggressive local institutions were facing liquidity difficulties after a rash of margin calls.

To inject liquidity into the financial system, the central bank booght back domestic treasury issues and, insiders say, persuaded big, conservative retail banks to lend to those in trouble.

To defend tbe real, the central bank first used an estimated $5bn to $7bn from its foreign currency reserves of $60bn. Then, in what it termed a "short-term, emergency measure" taken on Thursday evening, it doubled basic interest rates.

In tha short term at least, the measures seem to have worked. The real appreciated alightly on Friday, stock markets were calmer by the end of the afternoon, and Gustavo Franco, president of the central bank, said: "The central bank guarantees that there are no liquidity problems with Brazilian banks, internally or externally."

But will this be enough? A number of worries remain as the new week begins.

First, Friday's volatility may well persist as markets continue to adjust to the implications of the interest rate increase.

On the positive side, the move is a demonstration of the central bank's determination to protect the stability of the real at all costs.

On the negative side, it is likely to precipitate a migration into fixed-income investments, as indeed it did on Friday. This was inevitable: base rates rose from 1.58 per cent to 3.05 per cent, or from 20.7 per cent to 43.4 per cent on an annualised basis.

For foreign investors, effective returns on Brazilian fixed-income investments leapt from about 10 per cent to 30 per cent a year.

Some investors may also worry abont a possible devaluation of the real, although the government has repeatedly ruled this out: the inflationary consequences of auch a move would be disastrous.

Perbaps more to the point, equity investors will worry about the effects of the interest rate increase on the real economy. It produced howls of anguish from manufacturers and retailers, already facing a bleak end to the year.

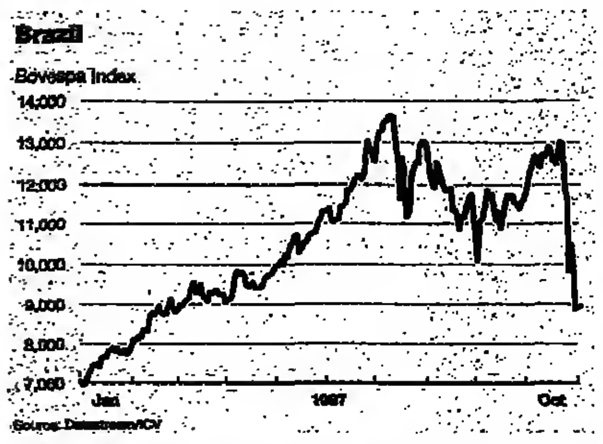
Before the rise, tbe São Paulo Federation of Commerce was predicting a fall in sales of 8 per cent over the Christmas period. Many car dealers and white goods' retailers suspended credit sales on Friday. If the rates remain high for long, recession must follow.

The Brazilian government bas stressed that interest rates would be cut as soon as possible, but President Fernando Henriqne Cardoso admitted on Friday that "only God knows" when this would be.

There is a positive side, however. The events of the past 10 days may persuade hitherto unco-operative politicians of the urgent need to reduce Brazil'a vulnerability by dealing witb its fiscal problems.

The government's supporters have begun pressing this point. Investors will be watching Congress closely in the coming weeks.

Brazil



Source: Datastream/ICV

Emerging markets: IFC weekly investable price indices

Market	No. of stocks	Dollar terms Oct 30 1997	% Change over week	% Change on Dec '96
Latin America	(247)	623.75	-17.0	+15.9
Argentina	(30)	967.05	-20.3	+1.7
Brazil	(68)	439.65	-23.9	+10.9
Chile	(46)	692.75	-5.2	+11.7
Colombia[1]	(14)	870.06	-2.3	+37.4
Mexico	(63)	669.48	-15.6	+26.4
Peru[2]	(17)	220.27	-8.5	+11.9
Venezuela[3]	(9)	985.80	-12.3	+35.4
Asia	(708)	136.99	-8.3	-45.8
China[4]	(27)	67.53	+8.4	-8.4
South Korea[5]	(166)	50.52	-22.4	-34.6
Philippines	(42)	127.60	-2.6	-56.5
Taiwan, China[6]	(90)	136.45	-8.4	-11.0
India[7]	(77)	93.44	-4.8	+18.6
Indonesia[8]	(49)	68.49	+3.1	-46.3
Malaysia	(147)	128.15	-9.4	-81.9
Pakistan[9]	(28)	257.63	-9.2	+31.6
Sri Lanka[10]	(5)	120.60	-5.3	+26.7
Thailand	(87)	72.10	-20.4	-87.4
Euro/Mid East	(258)	145.99	-14.4	+8.7
Czech Rep	(5)	61.06	-6.7	-13.0
Egypt	(16)	101.78	-1.3	-
Greece	(54)	352.34	-7.3	+45.4
Hungary[11]	(12)	264.94	-15.2	+34.7
Israel	(40)	116.89	-10.9	+16.8
Jordan	(7)	212.51	-0.7	+13.8
Morocco	(5)	133.10	+1.3	-
Poland[12]	(29)	816.74	-15.3	-15.5
Portugal	(26)	195.24	-1.6	+33.6
Russia	(15)	157.39	-20.2	-
Slovakia	(5)	104.75	0.0	-
South Africa[13]	(61)	182.03	-15.0	-12.7
Turkey[14]	(57)	267.76	-23.4	+80.1
Zimbabwe[15]	(5)	543.09	-4.4	+14.7
Composite	(1,213)	252.28	-13.9	-14.5

Indices are calculated at end-week; weekly changes are percentage movement from the previous Friday. Base date: Dec 1988=100 except - those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 6 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1992; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)Aug 2 1993; (16) July 2 1993.

THE WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

■ **TODAY**

Abbey National Treasury Services 8% Gtd. Nts. 1998 L400,000
APV 3.15% Cm. Pf. 1.575p
Do 4.55% Cm. Pf. 2.275p
Do 5.25% Cm. Pf. 2.625p
Asda Property Hldgs. 0.9p
Beattie (James) 2.5p
Bellsouth $0.36
Bentalls 0.7p
British Petroleum Co. 5.5p
Do $0.6713
Do $0.8713
Cattles 3.25p
Close Brothers Grp. 8.2p
CrestaCare 0.31p
Dawson Grp. 2.1p
DCS Grp. 1p
Edinburgh Fund Managers 8p
Enterprise Oil 6.9p
Filtronic Comtek 1p
First Choice Holidays 0.9p
Gallaher 9.625p
Gowrings 1.1p
Highcroft Inv Tst 2.35p
IAF 4.5p
Laing (John) 2.7p
Do A (N/Vtg) 2.7p
Lavendon 1.3p
Lowe (Robert H) 0.125p
Macro 4 15.5p
Manders 3.1p
Moorepay 1.1p
Ocean 5.4p
Pall $0.14
Pittards 1p
Sema 2.8p
Shell Trans 5.1p
Singer & Friedlander 2.13p
Taylor Woodrow 1.25p
Travis Perkins 3.3p
TR European Growth Tst 0.9p
Do Ptg Sb 1.8p

■ **TOMORROW**

Abbey National Treasury 8¼% Gtd Nts 1998 £825.0
Astec (BSR) 0.69p
Beauford 0.3p
BSM 2.53p
Compel 3.6p
Ewart 0.8p
New Zealand 11¼% 2008 £281.25
Paramount Foods 2.5p
Quayle Munro 2p
Quebec 8⅝% Ser OD Nts Nov 2011 £86.25
Royal Doulton 2.3p
Rubicon 4.1p
Sunderland 3.2p
Usher (Frank) 7p

■ **WEDNESDAY**
NOVEMBER 5

Abbey National Treasury 7⅝% Gtd Nts 2001 L381250.0
Birse 0.3p
Eksportfinans 7¾% Nts 1997 C$77.50
Pemberstone 1.1p
Sweden 8% Bd 1997 DM800.0
Torex 0.5p

■ **THURSDAY**
NOVEMBER 6

Abbot 0.8p
Dunedin Smaller Co's Inv Tst 8⅜% Db 2022 £4.1875
Forth Ports 4.5p
Healthcall 1.65p
Howard Hldgs 0.8p
Lawrence 8.12p
Robert Walters 1.3p
Steel Burrill Jones 0.75p
Utd Assurance 7p
Vodafone 7⅞% Nts 2001 £78.75
Whitbread 7¼% Un Ln 1995/99 £3.625

■ **FRIDAY**
NOVEMBER 7

Ascot 3p
Boosey & Hawkes 2.17p
Bradford & Bingley Bldg Scty FRN Feb 1999 £184.32
City Merchants High Yield Tst 2.5p
City Technology 3.82p
Dewhirst 1.4p
F & C Pacific Inv Tst 0.8p
Framlington Dual tst 2p
Hemingway Properties 0.18p
Henderson American Cap & Inc Tst 1.8p
Intrum Justitia 1.3p
Johnston Press 1p
Mayborn 2.6p
Oasis Stores 2.4p
Scottish Media 8.8p
Secure Tst 7p
Smurfit (Jefferson) IR1.65p
Southampton Leisure 1p
Tilbury Douglas 7.5p
Walker (Thomas) 0.625p
Watmoughs 2.75p

■ **SUNDAY**
NOVEMBER 9

Halos 8⅜% Db 2018 £4.1875

UK COMPANIES

■ **TODAY**

COMPANY MEETINGS:
Gartmore Scotland Inv Tst, Charles Oakley House, 125, West Regent Street, Glasgow, 12.00
Invesco Japan Discovery Tst, 11, Devonshire Square, E.C., 12.00
Lendu, 3, Clanricarde Gardens, Tunbridge Wells, Kent, 10.30
Northamber, 1, Lion Park Avenue, Chessington, Surrey, 12.00
Superscape VR, Cromwell House, Bartley Wood Business Park, Hook, Hants., 2.30
BOARD MEETINGS:
Finals:
Assoc British Foods
Interims:
Blacks Leisure
Prowting
Stratagem
Style Hldgs.

■ **TOMORROW**

COMPANY MEETINGS:
Beverley, Woodlands Grange, Woodlands Lane, Almondsbury, Bristol, 11.00
Bryant, National Motorcycle Museum, Coventry Road, Bickenhill, Solihull, W. Midlands, 12.15
Logica, Church House, Westminster, S.W., 3.00
BOARD MEETINGS:
Interims:
Betterware
Celsis
Dairy Crest
Marks & Spencer
Northumbrian Fine Foods
Powerscreen
Securities Tst of Scotland
Thames Water

■ **WEDNESDAY**
NOVEMBER 5

COMPANY MEETINGS:
Goodwin, Saxon Cross Hotel, Sandbach, Cheshire, 10.30
Henderson EuroTrust, 3, Finsbury Avenue, E.C., 12.00
Howard, Kingston Lodge Hotel, Kingston Hill, Kingston upon Thames, Surrey, 10.30
Thorntons, Assembly Rooms, Derby, 11.00
BOARD MEETINGS:
Finals:
Gardner (L)
Interims:
British Airways
Hewetson
Scottish Power
Shanks & McEwen
Whitbread

■ **THURSDAY**
NOVEMBER 6

COMPANY MEETINGS:
Brunel, Chippenham Town Hall, Chippenham, Wilts., 11.00
Dalgety, Hotel Russell, Russell Square, W.C., 11.00
Framlington Dual Tst, 155, Bishopsgate, E.C., 12.30
Heart of Midlothian, Tynecastle Stadium, Gorgie Road, Edinburgh, 8.00
Northern Leisure, Insurance Institute of London, 20, Aldermanbury, E.C., 12.00
BOARD MEETINGS:
Finals:
Kwik Save
MMT Computing
Smart (J) Contractors
Interims:
Boots
Etam
Mercury Asset Mngmnt
Undervalued Assets Tst

■ **FRIDAY**
NOVEMBER 7

COMPANY MEETINGS:
PizzaExpress, Alban Gate, London Wall, E.C., 9.30
Ricardo, Institute of Mechanical Engineers, 1, Birdcage Walk, S.W., 11.00
Walker (Thomas), Grand Hotel Cromwell Row, Birmingham, 12.00
BOARD MEETINGS:
Interims:
Cedardata
Criterion Props.
Wyndeham Press

Company meetings are annual general meetings unless otherwise stated.

Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.
This list is not necessarily comprehensive since companies are no longer obliged to notify the Stock Exchange of imminent announcements.

CONFERENCES & EXHIBITIONS

CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

[illegible]

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

[illegible]

WORLD INTEREST RATES

MONEY RATES

[illegible]

EURO CURRENCY INTEREST RATES

[illegible]

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

[illegible]

D-MARK FUTURES (IMM) DM 125,000 per DM

[illegible]

SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

[illegible]

JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

[illegible]

STERLING FUTURES (IMM) £62,500 per £

[illegible]

PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

[illegible]

PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

[illegible]

UK INTEREST RATES

LONDON MONEY RATES

[illegible]

THREE MONTH EURODOLLAR (IMM) $1m points of 100%

[illegible]

US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	95.08	95.09	-0.03	95.11	95.08	513	5,234
Mar	95.19	95.19	-0.03	95.19	95.14	295	4,737
Jun	-	95.13	-0.03	-	95,11	13	493

All Open interest figs. are for previous day

BANK OF ENGLAND TREASURY BILL TENDER

[illegible]

Pound in New York

[illegible]

FT GUIDE TO WORLD CURRENCIES

The FT Guide to World Currencies table can be found on the Markets page in today's edition.

BASE LENDING RATES

	%		%		%
Adam & Company	7.00	Exeter Trust Limited	8.00	●Singer & Friedlander	7.00
Allied Irish Bank (GB)	7.00	Financial & Gen Bank	8.00	●Smith & Williamson Secs	7.00
●Henry Ansbacher	7.00	●Robert Fleming & Co	7.00	Sun Banking Corp Ltd	7.00
Banco Bilbao Vizcaya	7.00	●Guinness Mahon	7.00	TSB	7.00
Bank of Cyprus	7.00	Habib Bank AG Zurich	7.00	United Bank of Kuwait	7.00
Bank of Ireland	7.00	●Hambros Bank	67.00	Unity Trust Bank Plc	7.00
Bank of India	6.75	Heritable & Gen Inv Bk	7.00	Whiteaway Laidlaw	7.00
Bank of Scotland	7.00	C. Hoare & Co	7.00	Yorkshire Bank	7.00
Barclays Bank	7.00	Hongkong & Shanghai	7.00		
Brit Bk of Mid East	7.00	Investec Bank (UK) Ltd	7.00		
●Brown Shipley & Co Ltd	7.00	Julian Hodge Bank	7.00		
Citibank NA	7.00	●Leopold Joseph & Sons	7.00		
Clydesdale Bank	7.00	Lloyds Bank	7.00		
The Co-operative Bank	7.00	Midland Bank	7.00		
Coutts & Co	7.00	NatWestminster	7.00		
Cyprus Popular Bank	7.00	●Rea Brothers	7.00		
Duncan Lawrie	7.00	Royal Bk of Scotland	7.00		
		Scottish Widows Bank	7.00		

● Members of London Investment Banking Association

* In administration

OTHER STATISTICS

STOCK INDICES

[illegible]

RIGHTS OFFERS

[illegible]

LONDON RECENT ISSUES: EQUITIES

[illegible]

BANK RETURN

[illegible]

FTSE GOLD MINES INDEX

[illegible]

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	Wk% ch'nge	Div net	Div cov	Dividends paid	Last xd	City line
Allied Domecq	♣N	409½	-4.6	Q27.13	1.4	Feb Jul	19.5	1550
Bulmer (HP)	♣	447½	-4.0	14.52	2.5	Feb Sep	11.8	2005
Burn St Dist	♣	40½xd	-1.6	3.4	0.6	May Nov	27.10	1016
Glenmorangie A		975		13.2	3.1	Jan Jul	23.6	3257
B		1002½	-5.9	6.6	3.1	Jan Jul	23.6	-
Grand Met	♣♣	538	-7.1	Q18.81	1.9	Apr Oct	21.1	2759
Guinness	♣N	533	-9.2	Q19.36	2.2	May Oct	29.9	2791
Highland	♣	322½	1.9	8.8	2.4	Jan Jan	6.5	2880
5¼pc Cnv Bds		92	-3	Q5¼%	-	Jul Jan	7.7	-
Kirin Y	3	504½	-5.9	Q24%	-	Sep Mar	25.5	1119
Matthew Clark	♣	240½	-4.3	24.0	1.4	Apr Oct	4.9	2153
Merrydown	♣	58	-4.3	3.1	1.3	Jan Oct	2.7	3352
Seagram C$		£20¼	-10.8	Q66c	-	MrJnSpDc	25.8	-

BANKS, RETAIL

	Notes	Price	Wk% ch'nge	Div net	Div cov	Dividends paid	Last xd	City line
ABN Amro Fl		£11⅞	-3	Q84%	2.2	May Sep	9.5	1010
ANZ A$		417	-2.6	Q48c	♦	Jan Jul	5.12	-
Abbey National	†	948	-4	27.9	2.2	May Oct	11.8	5811
Alliance & Leicester	♣	883	-2.1	18.3	2.5	Oct	4.9	5800
Allied Irish I£	♣†	504½	-4.4	Q75%	2.5	Mar Sep	17.2	1358
Anglo Irish I£	†	98	-3.4	Q20%	2.3	Jan Jul	6.5	1365
Asahi Y		312¼	-7.0	Q14%	-	Jan Dec	25.9	3049
Banco Bil Viz Pta	3	£17¼	0.5	Q10.4%	-	JaApJyDc	10.10	-
Banca Sant Pta		£16⅝	-4.5	Q16.6%	2.3	JaApJyDc	30.4	-
Bk Ireland I£		752½	-3.6	Q22%	2.8	Jan Jul	11.7	1368
Bank Scotland	♣†	462xd	-6.5	8.77	4.1	Jan Nov	13.10	1742
9¼pc Pf		148¾	-3	9¼%	-	May Nov	6.5	1462
9⅜pc Pf		143½	-3	9⅜%	-	May Nov	6.5	[illegible]

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING & CONSTRUCTION

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CHEMICALS - Cont.

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Cont.

[illegible]

ENGINEERING, VEHICLES

[illegible]

ENGINEERING, VEHICLES - Cont.

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

EXTRACTIVE INDUSTRIES - Cont.

[illegible]

FOOD PRODUCERS

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HEALTH CARE - Cont.

[illegible]

HOUSEHOLD GOODS

[illegible]

INSURANCE

[illegible]

INVESTMENT TRUSTS

Approved by the Inland Revenue

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

INV TRUSTS SPLIT CAPITAL

Approved by the Inland Revenue

[illegible]

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MEDIA - Cont.

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PROPERTY

[illegible]

PROPERTY - Cont.

[illegible]

RETAILERS, GENERAL - Cont.

[illegible]

SUPPORT SERVICES

[illegible]

AIM

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

AIM - Cont.

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

SUPPORT SERVICES - Cont.

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

SOUTH AFRICANS

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
Anglo Am Ind R		£23½	...	0555c	♦	May Oct	26.8	-
Barlow	§†	88¼	-10.0	0108c	3.3	Jan Jul	9.12	-
Gold Flds Prop R		138¾	-9.1	085c	1.5	Feb Oct	1.9	-
SA Brews		£16¾	-10.1	0287c	♦	Jul Feb	2.6	4113
Standard Bank		£24¾	-17.0	0434c	-	Sep Mar	25.9	-
Tiger Oats	†	875	...	0139½c	2.8	Jan Jul	8.6	-
Tongaat-Hulett		734¼	-2.8	0142c	♦	Jan Jul	17.8	-

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise indicated. For FTSE index constituents and reserves, last trade prices at or prior to market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS").

Net dividends are shown in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Dividend covers are calculated on a "net" basis.

Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ♦ Figures or report awaited
- ♥ Rule 21(a)(v) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- †† Rule 4.2(a) Irish incorporated non-listed companies
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue, cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend; cover based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. g Assumed dividend. h Assumed dividend after scrip issue. m Interim higher than previous total. p Rights issue pending. q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend: cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings.

z Dividend includes a special payment: Cover does not apply to special payment. F Dividend based on prospectus or other official estimates for 1996-97. G Assumed dividend after pending scrip and/or rights issue. H Dividend based on prospectus or other official estimates for 1997. K Dividend based on prospectus or other official estimates for 1996. L Estimated annualised dividend, cover based on latest annual earnings.

M Dividend based on prospectus or other official estimates for 1997-98. N Dividend is paid in whole or part as a FID (Foreign Income Dividend). O Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend, xc ex scrip issue, xr ex rights; xa ex all; xd ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1425 a year for each security shown, subject to the Editor's discretion.

FT Share Service

The following changes have been made to the FT Share Information Service: **Additions: Northern Rock** (BkRt), **Cairngorm Demutualisation** (InTr), **Aggreko** (SpSv), **I S Solutions** (AIM). **Deletions: Tokai Bank** (BkRt), **Brent Walker** (L&H), **Yorkshire Tyne-Tees TV, Do Warrants** (Med), **Seafield Resources** (OiE), **Wood (JD)** (Prop), **Leigh Interests 6% Cv Red Prf** (SpSv), **TLS** (Trns).

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OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (FSA RECOGNISED)

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (REGULATED)(**)

JERSEY (FSA RECOGNISED)

IRELAND (REGULATED)(**)

LUXEMBOURG (FSA RECOGNISED)

هكذا من الاصل

Offshore Funds and Insurances

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OFFSHORE INSURANCES

LUXEMBOURG (REGULATED)(**)

FT MANAGED FUNDS SERVICE

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OTHER OFFSHORE FUNDS

مكرر من الاصل

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Oct 31 / Sch)

BELGIUM/LUXEMBOURG (Oct 31 / Frs.)

CZECH REP (Oct 31 / Koruna)

DENMARK (Oct 31 / Kr)

FINLAND (Oct 31 / Mks)

FRANCE (Oct 31 / Frs.)

GERMANY (Oct 31 / Dm.)

GREECE (Oct 31 / Drachma)

ITALY (Oct 31 / Lira)

NETHERLANDS (Oct 31 / Fls.)

NORWAY (Oct 31 / Kroner)

POLAND (Oct 31 / Zloty)

PORTUGAL (Oct 31 / Escudo)

SPAIN (Oct 31 / Pta.)

SWEDEN (Oct 31 / Kronor)

SWITZERLAND (Oct 31 / Frs.)

TURKEY (Oct 31 / TK.Lira)

PACIFIC

JAPAN (Oct 31 / Yen)

HONG KONG (Oct 31 / H.K.$)

INDONESIA (Oct 31 / Rupiah)

MALAYSIA (Oct 31 / MYR)

NEW ZEALAND (Oct 31 / NZ $)

SINGAPORE (Oct 31 / S$)

AUSTRALIA (Oct 31 / Aus$)

SOUTH KOREA (Oct 31 / Won)

TAIWAN (Oct 30 / TW $)

THAILAND (Oct 31 / Baht)

MONTREAL (Oct 31 / Can $)

4 pm close

AFRICA

SOUTH AFRICA (Oct 31 / Rand)

NORTH AMERICA

CANADA

TORONTO (Oct 31 / Can $)

4 pm close

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International Limited and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY OCTOBER 31 1997 US Dollar Index	%chg since 31/12/96	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 31/12/96	Gross Div. Yield	THURSDAY OCTOBER 30 1997 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (76)	203.51	-8.3	179.92	154.72	182.10	182.02	3.3	4.00	200.17	178.08	152.18	178.32	180.30	243.87	180.41	213.66
Austria (24)	198.33	4.4	175.33	150.78	177.46	177.41	16.7	1.85	192.66	171.59	146.66	172.80	172.74	213.59	175.14	180.99
Belgium (27)	247.60	8.7	218.89	188.23	221.54	216.61	21.8	3.19	243.35	216.47	185.02	217.99	213.35	261.11	219.71	220.07
Brazil (30)	212.77	12.2	188.10	161.75	190.38	431.78	19.0	1.69	212.42	188.95	161.50	190.28	432.05	322.44	178.94	181.95
Canada (123)	214.42	12.9	189.56	163.01	191.88	218.77	16.1	1.78	212.52	189.05	161.58	190.38	216.72	233.66	178.27	182.73
Denmark (32)	410.36	16.8	362.79	311.97	367.18	365.62	29.5	1.40	408.41	363.30	310.52	365.86	364.25	429.78	327.98	330.97
Finland (28)	310.65	26.5	274.63	236.17	277.96	336.86	41.8	1.85	306.01	272.21	232.66	274.13	332.63	349.43	216.01	217.81
France (84)	226.36	5.7	200.12	172.09	202.54	204.38	17.1	2.61	225.36	200.47	171.34	201.88	204.19	248.23	201.56	202.15
Germany (58)	213.67	12.5	188.90	162.44	191.18	191.18	25.6	1.51	213.73	190.13	162.50	191.47	181.47	243.87	179.65	179.65
Hong Kong, China (66)	367.53	-27.5	324.92	279.41	328.85	364.72	-27.6	4.34	358.04	318.50	272.22	320.74	355.33	580.03	314.78	466.06
Indonesia (27)	123.64	-45.8	109.30	93.99	110.63	273.43	-17.3	2.49	123.53	109.88	93.92	110.66	273.94	254.90	101.96	203.64
Ireland (17)	377.09	14.7	333.37	286.68	337.41	353.18	29.0	2.74	373.24	332.01	283.77	334.35	350.89	384.88	310.26	313.71
Italy (53)	106.50	27.6	94.16	80.97	95.30	134.43	41.8	1.77	105.90	94.21	80.52	94.87	133.75	115.27	75.44	75.71
Japan (484)	109.85	-14.9	97.11	83.51	98.29	83.51	-11.8	0.95	109.83	97.70	83.51	98.39	83.51	143.36	107.57	137.62
Malaysia (107)	232.66	-61.4	205.68	176.88	208.18	800.17	-48.6	2.36	224.93	200.09	171.02	201.50	299.13	660.85	222.86	577.40
Mexico (27)	1510.28	23.8	1335.16	1148.18	1351.38	13903.63	32.4	1.75	1507.73	1341.19	1146.33	1350.64	13789.44	1901.98	1138.59	1136.58
Netherlands (19)	402.43	19.7	355.78	305.95	360.09	356.46	34.3	2.34	400.74	356.48	304.68	358.99	355.44	440.67	307.16	307.98
New Zealand (14)	83.25	-9.3	73.60	63.29	74.49	70.87	2.8	4.33	82.32	73.23	62.59	73.74	70.06	96.47	75.37	80.82
Norway (39)	350.22	18.5	309.61	266.25	313.36	332.77	29.9	1.85	351.45	312.63	267.21	314.83	334.71	374.64	264.95	264.95
Philippines (22)	83.62	-58.9	73.93	63.57	74.82	147.42	-44.8	1.44	83.51	74.29	63.49	74.81	145.70	214.07	78.40	186.41
Singapore (42)	235.45	-43.9	208.16	179.00	210.66	170.68	-36.9	1.85	227.56	202.43	173.02	203.85	165.78	448.01	215.21	383.29
South Africa (43)	286.37	-10.1	253.17	217.71	256.24	301.23	-7.5	2.83	269.34	239.59	204.78	241.28	284.84	370.12	259.47	335.71
Spain (33)	249.82	13.7	220.85	189.92	223.53	275.10	27.0	2.45	252.70	224.79	192.13	226.37	278.61	277.33	169.28	186.53
Sweden (49)	473.16	12.2	418.31	359.72	423.37	624.24	22.9	1.98	472.17	420.02	358.99	422.98	524.02	538.94	391.53	392.17
Switzerland (33)	313.52	31.4	277.18	238.35	280.53	271.42	36.7	1.23	306.96	273.05	233.38	274.96	266.94	329.59	231.69	242.17
Thailand (39)	29.09	-69.8	25.72	22.11	26.03	46.31	-51.4	6.07	29.72	26.43	22.59	26.62	48.25	129.94	29.09	113.87
United Kingdom (215)	320.00	13.0	282.90	243.27	286.32	282.90	15.3	3.46	315.53	280.68	239.90	282.65	280.68	337.99	259.04	260.98
USA (633)	372.70	23.5	329.49	283.34	333.49	372.70	23.5	1.66	368.42	327.73	280.11	330.04	368.42	399.62	286.24	286.66
Americas (813)	339.17	22.6	299.85	257.85	303.48	286.18	23.1	1.67	335.38	298.34	254.99	300.44	282.94	365.75	262.17	262.45
Europe (711)	275.80	15.1	243.83	209.68	246.78	252.15	23.3	2.53	273.35	243.16	207.83	244.87	250.82	296.25	223.57	223.73
Nordic (148)	419.08	15.5	370.50	318.60	374.98	405.70	27.2	1.85	417.44	371.34	317.38	373.95	404.62	484.93	334.01	334.47
Pacific Basin (877)	120.21	-19.1	106.27	91.39	107.56	92.94	-15.2	1.57	118.61	106.40	90.94	107.15	92.51	160.96	117.29	153.96
Euro-Pacific (1588)	185.14	-0.7	163.67	140.75	165.65	152.62	5.0	2.17	183.78	163.47	139.72	164.62	151.90	209.12	173.55	182.82
North America (756)	362.87	22.9	320.80	275.87	324.69	362.46	23.1	1.67	358.75	319.12	272.76	321.37	358.35	389.57	280.10	280.48
Europe Ex. UK (496)	246.17	16.3	217.63	187.15	220.26	229.59	28.1	1.97	244.70	217.67	186.05	219.21	228.73	267.07	198.96	199.09
Pacific Ex. Japan (393)	215.73	-31.6	190.72	164.00	193.03	205.12	-24.8	3.80	210.91	187.61	160.35	188.93	201.70	320.65	194.30	297.25
World Ex. US (1811)	188.67	0.0	166.79	143.43	168.81	159.26	5.6	2.15	187.14	166.47	142.29	167.65	158.38	212.89	176.94	184.89
World Ex. UK (2229)	240.90	10.1	212.97	183.15	215.56	214.83	13.8	1.72	238.67	212.31	181.47	213.81	212.80	262.89	211.16	212.63
World Ex. Japan (1960)	317.22	15.9	280.44	241.16	283.84	307.26	19.4	2.06	313.64	278.99	238.46	280.96	304.24	344.35	258.43	258.70
The World Index (2444)	247.63	10.4	218.82	188.26	221.57	220.84	13.7	1.91	245.21	218.13	186.44	219.67	218.97	268.47	216.61	216.78

 CONSTITUENT CHANGES WITH EFFECT 4/11/97: Deletion. Commonwealth Bank of Australia Instalment Receipts (Australia). Share weighting change: Commonwealth Bank of Australia (49.99% weighting to 100% weighting) (Australia).

Emerging markets: IFC Investable indices

Dollar terms

Oct 30

Base date: Dec 1988=100 except those noted which are: ... Latest indices were unavailable for this edition.

Prices supplied by Telekurs, part of FT Information

FT Free Annual Reports Service

4 pm close October 31

NEW YORK STOCK EXCHANGE PRICES

1997 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chg Prev. Close
		- A -								
38$\frac{7}{8}$	24$\frac{1}{4}$	AAR x	0.48	1.3	27	106	35$\frac{13}{16}$	35$\frac{1}{16}$	35$\frac{13}{16}$	+$\frac{13}{16}$
58$\frac{3}{8}$	33$\frac{1}{4}$	AMP x	1.04	2.3	34	4175	45	43$\frac{1}{2}$	45	+1
123$\frac{1}{2}$	78$\frac{1}{4}$	AMR			6	4798	116$\frac{3}{4}$	114$\frac{1}{2}$	116$\frac{1}{2}$	+1$\frac{1}{2}$
37$\frac{5}{8}$	24	ASA	1.30	4.5	17	328	26$\frac{5}{8}$	26$\frac{1}{2}$	26$\frac{1}{2}$	[illegible]
[illegible]	49$\frac{3}{4}$	AbbtL x	1.60	1.9	24	10094	61$\frac{3}{8}$	[illegible]	[illegible]	+1$\frac{1}{8}$
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
		- B - … **- W -**								
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
		- X - Y - Z -								
[illegible]	[illegible]	Xerox	1.28	1.6	20	[illegible]	80$\frac{3}{4}$	78$\frac{3}{8}$	79$\frac{1}{2}$	+1$\frac{1}{8}$
59$\frac{1}{8}$	40$\frac{1}{2}$	Xtra Corp	0.80	1.6	19	31	51$\frac{1}{8}$	50$\frac{3}{4}$	50$\frac{3}{4}$	[illegible]
[illegible]	[illegible]	Yankee Egy	1.34	5.9	14	82	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	37$\frac{3}{8}$	York Int	0.40	1.1	18	1153	[illegible]	[illegible]	[illegible]	[illegible]
6$\frac{3}{4}$	4	Zapata	0.28	3.6	61	354	[illegible]	[illegible]	[illegible]	[illegible]
13$\frac{1}{8}$	7$\frac{1}{2}$	ZenithE				1196	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	Zenith Nat x	1.00	3.6	16	15	[illegible]	[illegible]	28	[illegible]
[illegible]	7$\frac{1}{8}$	Zeus Inc x	0.76	9.3		74	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	17$\frac{1}{4}$	Zero	0.12	0.4	18	94	[illegible]	[illegible]	[illegible]	[illegible]
14	10$\frac{1}{2}$	ZweigFd	1.32	10.6		234	12$\frac{5}{8}$	12	12$\frac{3}{8}$	[illegible]
9$\frac{1}{2}$	8	Zweig Tot	0.84	[illegible]		549	[illegible]	[illegible]	[illegible]	[illegible]

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1997. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.
d-new yearly low. P/E price-earnings ratio. sls-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
Dealings suspended.

NASDAQ NAT

صكنا من الاصل

GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Oct 31	Oct 30	Oct 29	1997 High	1997 Low	Since compilation High	Since compilation Low
Industrials	7442.08	7381.67	7506.67	8259.31 (6/8)	6391.69 (11/4)	8259.31 (6/8/97)	41.22 (8/7/32)
Home Bonds	104.03	103.97	104.17	104.70 (31/7)	101.09 (14/4)	104.70 (31/7/97)	54.99 (1/10/81)
Transport	3131.48	3091.65	3135.10	3358.27 (16/10)	2222.07 (2/1)	3358.27 (15/10/97)	13.23 (8/7/32)
Utilities	242.59	241.33	242.37	248.56 (27/10)	209.47 (25/4)	256.46 (31/8/93)	16.53 (8/7/32)

DJ Ind. Day's high 7544.24 (7580.78) Low 7328.61 (7340.42) (Theoretical‡)
Day's high 7495.86 (7543.01) Low 7352.89 (7381.16) (Actual‡)

Standard and Poors	Oct 31	Oct 30	Oct 29	1997 High	1997 Low	Since compilation High	Since compilation Low
Composite‡	914.62	903.68	919.16	983.12 (7/10)	737.01 (2/1)	983.12 (7/10/97)	4.40 (1/6/32)
Industrials¶	1065.55	1052.53	1088.88	1148.82 (7/10)	865.42 (11/4)	1148.82 (7/10/97)	3.52 (30/6/32)
Financial¶	109.10	107.80	110.85	118.04 (7/10)	80.75 (2/1)	118.04 (7/10/97)	7.13 (4/9/74)
Others							
NYSE Comp.	481.14	475.83	482.93	514.21 (7/10)	398.47 (11/4)	514.21 (7/10/97)	4.64 (25/4/42)
Amex Comp	675.75	670.84	676.41	721.80 (7/10)	541.20 (28/4)	721.80 (7/10/97)	524.30 (16/7/95)
NASDAQ Cmp	1593.61	1570.41	1602.75	1745.85 (9/10)	1201.00 (2/4)	1745.85 (9/10/97)	54.87 (3/10/74)
Russell 2000	433.26	428.86	434.87	465.21 (13/10)	335.85 (25/4)	465.21 (13/10/97)	123.36 (7/12/93)

RATIOS

	Oct 24	Oct 17	Oct 10	Year ago
Dow Jones Ind. Div. Yield	1.73	1.70	1.66	2.15
	Oct 29	Oct 22	Oct 15	Year ago
S & P Ind. Div. yield	1.55	1.47	1.47	1.95
S & P Ind. P/E ratio	24.60	25.96	25.95	22.80

US DATA

MARKET ACTIVITY

[illegible]

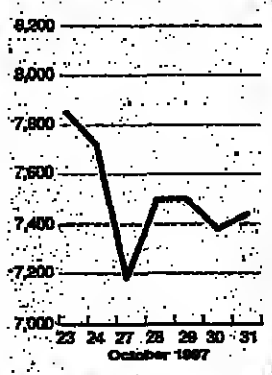
NYSE TRADING ACTIVITY

[illegible]

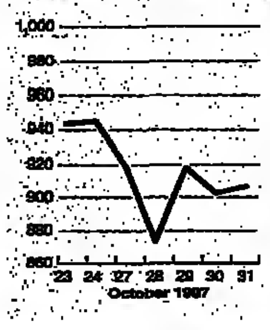
NASDAQ TRADING ACTIVITY

[illegible]

Dow Jones



FTSE Eurotop 300



JAPAN

[illegible]

FRANCE

[illegible]

GERMANY

[illegible]

UK

[illegible]

INDEX FUTURES

S&P 500	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	922.00	924.00	+20.90	926.00	899.50	75,349	193,000
Mar	932.00	933.50	+21.15	935.00	918.00	354	6,314
Nikkei 225	**Open**	**Sett price**	**Change**	**High**	**Low**	**Est. vol.**	**Open int.**
Dec	16140.0	16460.0	+80.00	16610.0	16050.0	26,425	174,987
Mar	16150.0	16530.0	+140.0	16530.0	16110.0	48	9,607

CAC-40 (200 x index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Oct	2759.0	2767.9	+37.9	2773.0	2716.0	22,072	12,792
Nov	2767.0	2731.0	-8.0	2785.0	2720.0	28,579	48,002
DAX							
Dec	3799.0	3775.0	+40.0	3845.0	3745.0	29,186	75,187
Mar	3815.0	3809.0	+41.5	3867.0	3783.5	191	5,455

OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Nov	2315.00	2307.00	-3.00	2333.50	2300.25	2,478	27,841
Dec	-	2311.00	-	-	-	-	1,892
SOFFEX							
Nov	5335.0	5476.8	+80.0	5480.0	5358.0	6,369	25,802
Dec	5394.0	5485.0	+76.4	5452.0	5394.0	26	318

Open interest figures for previous day.

WORLD MARKETS AT A GLANCE

[illegible]

NASDAQ NATIONAL MARKET

4 pm close October 31

[illegible]

AMEX PRICES

4 pm close October 31

[illegible]

EASDAQ

[illegible]

FT GUIDE TO THE WEEK

MONDAY 3

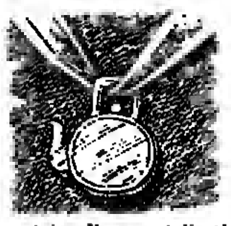
Crete meeting

The Greek and Turkish prime ministers, Costas Simitis and Mesut Yilmaz, meet for the first time on the margins of a two-day Balkan leaders' summit on the island of Crete. The meeting comes amid rising tension over military incidents during Greek, Cypriot and Turkish exercises in the Aegean. Greece is hosting the summit to promote better relations with its neighbours most of whom want the region to be known as south-east Europe rather than the Balkans. Heads of state and government from Albania, Bulgaria, Macedonia, Romania, Serbia and Turkey will attend.

London in Frankfurt

The London International Financial Futures and Options Exchange hosts a conference in Frankfurt. Bank of England governor Eddie George will be among the speakers discussing the City of London's position as a leading financial centre and its preparations for the advent of the European single currency.

Culture awards



On Culture Day, a public holiday in Japan, the Emperor awards the Order of Culture to five people who have made outstanding contributions to the cultural life of the nation. This year's recipients include a master of the tea ceremony, professors of economics, physics and organic chemistry, and a maker of traditional Japanese lacquerware.

Cyber-conference

Some 70,000 delegates are expected to attend what has been billed as the world's first environmental cyber-conference, at website www.environment97.org. On-line speakers will include Sir John Houghton, head of scientific assessment for the inter-governmental panel on climate change.

FT Surveys

Bermuda.

Holidays

Austalia, Belgium, Bolivia, Colombia, Ecuador, Japan, New Zealand, Panama.

TUESDAY 4

Jordan votes

Parliamentary elections take place in Jordan but the outcome is already decided following the decision by the Islamic Action Front parties to boycott the elections. The boycott is seen as a blow to King Hussein's attempts to introduce more democracy and integrate the Islamist parties into the political system. The opposition had wanted a change in the election law to make them more representative.

Feeling the heat? Bonfire Night in Britain on Wednesday remembers MPs' escape from the flames when the Gunpowder Plot failed

Spotlight on unions

The Geneva-based international Labour Organisation publishes its annual World Labour Report, which this year documents the decline of trade union membership around the world and looks at the role of trade unions in the globalised economy.

Suicide choice

In elections in the US, voters in New Jersey and Virginia choose state governors while hundreds of cities elect mayors. in New York City, incumbent Republican Rudolph Giuliani is expected to win easily. Attention is also focused on Oregon where voters are being asked if they wish to reverse a previous decision allowing assisted suicide in the state.

Day at the races

Melbourne comes to a halt for the running of Australia's biggest horse race, the Melbourne Cup.

Holidays

Andorra, Australia, Dominica, Panama, Tonga, United States, Vatican City.

WEDNESDAY 5

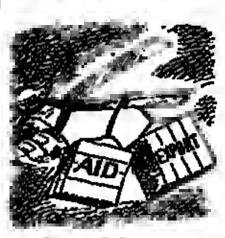
Security conscious

Taiwan hosts the annual conference of the Interoational Organisation of Securities Commissions. Discussions will focus on the development and integration of Asian financial markets, the impact of foreign investment in emerging markets. Taiwan's Securities and Futures Commission will also sign co-operation agreements with several foreign counterparts.

Jobs talks

European Union finance ministers meet in Brussels with employment – and the jobs summit planned for later in the month – high on the agenda. Employment ministers will have their say on the issue on Thursday.

Overseas aid



The biggest shake-up in British aid policy for 20 years will be set out in the government's white paper on international development, product of the new Department for International Development (DFID) under Clare Short. For the first time since the mid-1970s, the portfolio is a cabinet post. The paper is expected to call for an end to links between aid and UK commercial and strategic interests. It is also expected to reflect Ms Short's determination to channel assistance, worth some £2bn a year, more directly towards the world's poor. But will this mean aid will no longer be used as a lever to encourage recipients to make political and economic reform?

Fireworks in the House

On Bonfire Night – the anniversary of the failed 1605 'Gunpowder Plot' to blow up the Houses of Parliament – Labour MP Brian Iddon will bring gunpowder back into the House for a demonstration of "explosive chemical energy in action" for fellow MPs. Dr Iddon was reader in chemistry at Salford university before being elected to parliament.

Tiger burns bright

Young US golfing star Tiger Woods arrives in golf-crazy Japan on a five-day visit. Fans are expected to turn out in droves to see him in action.

FT Surveys

FT-IT, Business Locations in Europe.

Holidays

Dominica.

THURSDAY 6

Scottish poll

Polling takes place in a UK by-election in Paisley South. The contest was caused by the suicide in July of Gordon McMaster, the Labour MP who left a note accusing party colleagues of spreading malicious gossip about him. Mr McMaster had a majority of 12,750 and Douglas Alexander, the Labour candidate, is expected to hold the seat comfortably. Labour has fought a low-key campaign and sidestepped accusations of malpractice in the local party and council, saying the matters are still under investigation by its national executive. The principal challenger to Mr Alexander is Ian Blackford, the SNP candidate whose party was runner-up in the general election.

Rates decision

The Bank of England's monetary policy committee ends its monthly two-day meeting and is expected to announce that UK interest rates will remain unchanged. The committee is likely to conclude that raising rates would risk denting confidence further after recent stock market turbulence.

Kohl meets Aznar

Helmut Kohl, the German chancellor, meets in Bonn with José Maria Aznar, the Spanish prime minister, for an informal evening of talks. The meeting is described by German officials as one of a regular series with EU government leaders. But decisions on membership of the planned European single currency are looming.

Holidays

Israel, Liberia, Morocco, Tajikistan, United States.

FRIDAY 7

Amazon agreement

Presidents Fernando Henrique Cardoso of Brazil and Ernesto Samper of Colombia meet in Cartagena, Colombia, to sign bilateral agreements. They will be discussing environmental protection and sustainable development policies for the Amazon basin, and will issue a joint declaration on the conservation of the Amazon. Drug trafficking is also on the agenda.

Confronting racketeers

Japan's Keidanren, or Federation of Economic Organisations, holds an emergency meeting – attended by 900 of its member companies – to urge them to cut ties with "sokaiya" corporate extortionists. Revelations of pay-offs to sokaiya-linked firms have now spread from the financial sector to a wide swathe of Japan's manufacturers and blue chip companies. Mitsubishi Motors is one of the latest big names to admit making illegal payments in order to avoid disruption of its annual meetings or other threats.

Cricket

First test between Australia and New Zealand begins in Brisbane.

Holidays

Bangladesh, Malaysia, Belarus, Russia, Tunisia, Ukraine, Western Samoa.

SATURDAY 8

Margarita summit

More than 20 heads of state from Latin America, Spain and Portugal attend the seventh Ibero-American summit on Margarita island off Venezuela's Caribbean coast. Beyond regional topics such as democracy, corruption, and drug-trafficking, Fidel Castro, the ageing Cuban leader, will draw the attention of summit observers. Last week Cuba's foreign minister made a surprise visit to Caracas. Some say his mission was to win over summit host, president Rafael Caldera, as an ally in defence of likely pressure from Spain and other Latin neighbours for Cuba to adopt reform towards democracy and a market economy.

Prague protest

Czech trade unions will demonstrate in Prague against the centre-right government's economic policies. The Czech-Moravian Chamber of Trade Unions, which has 1.7m members, opposes austerity measures introduced after the May currency crisis, in particular the public-sector wage freeze.

Emissions mission

With less than a month to go before the Kyoto conference on global warming, representatives from about 20 countries gather in Tokyo for an informal ministerial-level meeting to finalise preparations for the conference. There are still differences in the proposals for reducing emission levels put forward by the industrialised nations. Japan is likely to push the US and EU to move further towards a compromise position this weekend.

Ocean going

The Whitbread Round the World yacht race fleet sets off from Cape Town on the second leg of the global circumnavigation. The fleet is expected to arrive in Fremantle, Western Australia, on November 24 after a voyage of 4,600 nautical miles.

Good breeding

Horse racing's richest meeting, the Breeders' Cup series of races at Hollywood Park, California, has attracted entries from around the world.

Holidays

Nepal, Ukraine.

SUNDAY 9

Heavy industry

Members of the Confederation of British Industry gather at the start of its national conference in Birmingham, continuing until November 11. Delegates to the three-day conference will hear speeches from Tony Blair, the prime minister, and Gordon Brown, the chancellor, as well as other cabinet ministers and William Hague, the Conservative party leader.

Holidays

Pakistan, Ukraine

Compiled by Roger Beale.
Fax: (+44) (0)171 873 3196.

ECONOMIC DIARY

Other economic news

Monday: Personal income growth in the US is thought to have slowed slightly between August and September, as is consumption growth. The UK purchasing managers index may show weak exports taking more of a toll on manufacturing.

Tuesday: Consumer credit growth in the UK is forecast to have declined in September, maintaining the volatile downward trend of recent months. Japanese oew car registrations look set to have recorded another sharp year-on-year fall last month.

Wednesday: US factory orders are thought to have stagnated in September, reflecting subsiding demand for durable goods. German industrial production is expected to show a rebound for September, following August's sharp drop.

Thursday: Unemployment is forecast to have risen in eastern and western Germany in October, as labour market schemes do less to depress the figures.

Friday: US non-farm payrolls are expected to show an increase for October in line with September's 215,000 rise, while the unemployment rate may drop slightly.

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual	Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	UK	Oct M0*	0.7%	1.0%		Germany	Sept manufacturing output pan-Ger*	2.7%	-5.1%R
Nov 3	UK	Oct M0**	6.1%	6.1%		Germany	Sept industrial production west*		-4.9%R
	UK	Oct Chart Inst of Purchasing Managers		52.7%		Germany	Sept industrial production east*		-4.9%R
	US	Sept personal income	0.4%	0.6%	Thur	Germany	Oct unemployment pan-Ger†	25k	34k
	US	Sept personal consumer expenditure	0.3%	0.3%	Nov 6	Germany	Oct unemployment west†	2k	7k
	US	Oct Nat Assoc of Purchasing Managers	54.0%	54.2%		Germany	Oct unemployment east†	23k	26k
	US	Sept construction spending	0.5%	-0.3%		Germany	Aug employment west†	-8.5%	0k
	US	Oct domestic auto sales	6.8m	6.8m		Germany	Oct vacancies west†		1k
	US	Oct domestic light truck sales	6.3m	6.3m		Germany	Oct short time west not†		15k
Tue	Japan	Oct auto sales**		-8.9%		UK	Oct CBI distributive trades		26.0%
Nov 4	Japan	Sept overall pers consumer expend**		-0.5%		US	Sept home completions		1.32m
	Japan	Sept pers cons expend (workers)**		-0.3%		US	Initial claims Nov 1	305k	297k
	Japan	Sept income (workers)**		-0.3%		US	State benefits Oct 25		2,201k
	Japan	Oct forex reserves*		0.8%	Fri	US	Non-farm payrolls	210k	215k
	UK	Sept consumer credit	£0.8bn	£1bn	Nov 7	US	Oct manufacturing payrolls	10k	-16k
	UK	Oct official reserves		-$17m		US	Oct unemployment rate	4.8%	4.9%
	US	Sept leading indicators	0.2%	0.2%		US	Sept wholesale sales		-1.1%
	UK	Oct CIPS services survey		56.3%		US	Sept consumer credit	$4.8bn	$4.3bn
	UK	Sept industrial production*	0.3%	-0.4%	During the week...				
	UK	Sept industrial production**	2.5%	2.8%		Germany	Sept manufacturing orders pan-Ger*	1.0%	1.2%R
	UK	Sept manufacturing output*	0.3%	-0.1%		Germany	Oct final cost of living west*		-0.3%
	UK	Sept manufacturing output**	1.7%	1.8%		Germany	Oct final cost of living west**		1.9%
	US	Sept factory orders	0.1%	1.3%		Germany	Oct cost of living pan-Ger*	-0.1%	-0.3%
	US	Sept factory inventories		0.4%		Germany	Oct cost of living pan-Ger**	1.8%	1.9%
	Germany	Sept industrial production pan-Ger*	2.8%	-4.9%R					

*month on month, **year on year, †seasonally adjusted. *Statistics, courtesy MMS International.*

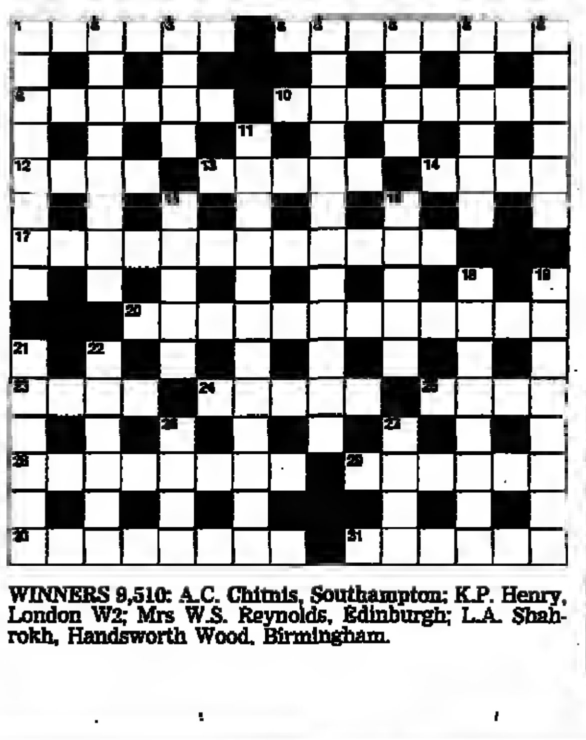
MONDAY PRIZE CROSSWORD
No.9,522 Set by DINMUTZ

ACROSS

1 Mail-boat making a lot of money (6)
4 Caution had Simon upset (8)
9 Limpet's last view of seaweed? (6)
10 Stimulant drug reduced in punch (8)
12 Animation in the land (4)
13 Relief-work amounted to nothing (5)
14 Intermediate standard (4)
17 Long face facing execution, as in dramatic film episode? (5-7)
20 Novel garment knitted for executive (12)
23 A journey abroad (4)
24 Coward's happy family? (5)
25 Barge and glower endlessly (4)
28 Like a man speaking double Dutch, say? (8)
29 Look to line-out in All-Black ground (6)
30 Needs are differeot in night air (8)
31 Overcrowded area of Hastings, say? (6)

DOWN

1 Tolerance of Buntborne's bride otherwise (8)
2 Pot or tin basin broken (8)
3 These fish drop off endlessly when upside down (4)
5 Double vision? (12)
6 University in which none are gated (4)
7 Moves ahead slowly playing game (having lost last of pawns) (6)
8 Recoiling from ship leaving battle area (6)
11 Square and road up – danger when moving (6-6)
15 Stern, wearing spectacles in operation (5)
16 Girl receives kiss – appropriate without permission? (5)
18 Nut left inside something prickly (8)
19 Order of owls with soft feathers has to reduce speed (4,4)
21 Teachers of poor sportsmen who have no time? (6)
22 Harry, dweller on riverbank (6)
26 Bad sign, ladies losing head! (4)
27 Mail goes astray in the capital (4)



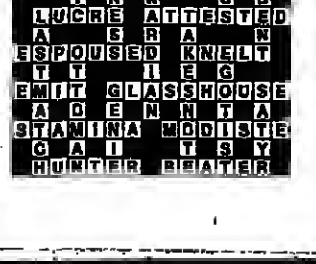
Six bottles of Davys Celebration Champagne for the first correct solution opened and three runner-up prizes of £40 Davys food and wine vouchers redeemable in person or by post. These prizes are available only to winners living in England, Scotland and Wales. Winners with overseas addresses will receive a set of silver-plated place name bases and cards. Solutions by Thursday November 13, marked Monday Crossword 9,522 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday November 17. Please allow 28 days for delivery of prizes.

Name...

Address...

WINNERS 9,510: A.C. Chitnis, Southampton; K.P. Henry, London W2; Mrs W.S. Reynolds, Edinburgh; L.A. Shahrokh, Handsworth Wood, Birmingham.

Solution 9,510



JOTTER PAD

INSURANCE • by Christopher Adams

Deals being made in a rush to diversify

Companies are using strong balance sheets to make big acquisitions

Do not be fooled by the lazy heat of Bermudian sunshine. Behind the relaxed façade of Front Street, where tourists pick their way among the gift shops, some of the world's youngest but biggest insurance companies are rushing to diversify.

Frenetic deal-making has broken out on the island. Companies that set up business five years ago to meet demand for property and catastrophe reinsurance in the wake of Hurricane Andrew are using strong balance sheets to make big acquisitions.

Behind the restructuring is e realisation that growth can only be sustained with a wider book of business and a broad geographical spread. Cost efficiency and the fiscal edvantages e Bermuda base will not be enough. Moreover, competition in reinsurance has increased. Buoyant equity markets end an absence of serious hurricanes mean conventional insurers have less need to protect against big losses. Some investors say Bermudian reinsurers are overcapitalised.

"Property catastrophe can be very profitable, but it is also very volatile," says Robert Cooney, chief operating officer of XL Insurance. "Wall Street penalises stock prices because of this. If you're in the sector, you might conclude it is attractive to be part of a bigger, better diversified company."

Including the island's insurance companies, many of which started in the mid-1980s by specialising in North American liability insurance, the sector's capital base has swelled to $37bn. Bermuda is also home to a large number of "captive" insurers set up by multinationals to serve individual needs.

The island ettracts insurance companies because they do not have to pay corporation tax, which means they can use the extra profits to build reserves against future claims. An accommodating regulatory environment has encouraged the growth in captives.

However, several companies now want partners who can give them a presence in overseas markets and access to new areas of business.

Partner Re, a catastrophe reinsurer which had resisted pressure to broaden its business, acquired French reinsurer Société Anonyme Française de Reassurances for Ffr5.4bn this year from Assurances Générales de France. In doing so, it enlisted the help of Swiss Re, which has taken a 22.6 per cent stake in the group.

The acquisition gave Partner Re a presence in credit and guarantee reinsurance, as well as a stake in the motor and life markets.

Mid Ocean, another reinsurer, set up a London branch to write marine, energy and aviation business in 1994. Earlier this year it took over the rest of Brockbank, the diversified Lloyd's insurance group, which owns Admiral, the UK telesales insurer.

"It's far more difficult to rely on one line of business. You leave yourself exposed to the vagaries of the market," says Michael Butt, chief executive of Mid-Ocean. "We realised since the beginning that only certain types of business would flow to Bermuda." Mr Butt warns against expanding for the sake of size and does not believe the reinsurance sector is overcapitalised. The ratio of premiums underwritten to equity has always been low by global standards, because of the size of individual risks, he says.

The acquisition of Tempest Re last year by Ace, a diversified insurance company, was the first hostile takeover battle in Bermuda and has raised expectations that more deals could follow. Ace had to raise its original offer after IPC Holdings, a rival reinsurer, launched its own uninvited bid.

Renaissance Re is one of several reinsurers not to have aligned itself with another company. It says it has had approaches, but is "happy to be independent". Furthermore, it wants to concentrate on its core catastrophe business and has set up a company called Glencoe to underwrite homeowner cover in California.

By diversifying within catastrophe reinsurance, but writing varied business which generates losses at different times, it says it can spread risk just as effectively. Like other Bermudian companies, it has sought to return cash to shareholders through share buy-backs or increased dividends.

Brian Duperreault, chief executive of Ace, says there are other areas the industry has yet to exploit. A trend among commercial buyers to seek financial reinsurance which "smooths" the effects of future losses on balance sheets could present opportunities, he says.

There has also been e move towards "securitisation" or developing financial products that meet insurers' need to protect against big losses but which can be translated into tradeable instruments to sell to investors. The Bermuda Commodities Exchange is launching a catastrophe options contract enabling companies to place risk with capital markets investors.

In the captive insurance sector, meanwhile – where dedicated insurance companies are set up by multinationals to serve their needs more cheaply – the threat from other global centres is increasing. New York is considering legislation on captives that may reduca the flight of capital offshore. In eddition to the Cayman Islands, the US state of Vermont has emerged as a serious competitior, as have Dublin and the Channel Islands.

The soft insurance market means there is less advantage to be gained in establishing a captive. Instead, the chase is on to identify untapped groups such as hospitals seeking protection from medical malpractice lawsuits or company directors wanting coverage for professional liability.

Hurricane Felix: the physical damage it wreaked on Bermuda in 1995 was estimated to have cost about $1m

PROFILE Bermuda's Biological Research Station

Sounding out the weather

The station is working with the insurance sector to try to predict hurricanes

Lying beneath the clear, blue waters off the coast of Bermuda is an array of sonar listening devices that stretches for many miles in every direction.

"There are little microphones all over the place down there," says Rick Murnane, manager of the science program at Bermuda's Biological Research Station. "The US Navy used them to listen to submarines, but yon can also track whales with them."

Mr Murnane explains that radio waves, which are electromagnetic, do not travel as well through the ocean as sound because water conducts electricity. So there would be little point, for example, in attaching e radio transmitter to a whale.

From its vantage point in the mid-Atlantic, Bermuda's biological station is well placed to study the sea.

Visiting scientists have used it for nearly e century and migratory whales comprise a small part of its activities. Many of the scientists are monitoring the effects of global warming on the chemical composition of the sea.

The station has also started to work with the insurance industry to try to predict hurricanes more effectively. Using powerful computers and highly detailed satellite photographs, the station could chart its own destruction were e hurricane to speed towards Bermnda.

A whiteboard on the second floor of a cramped office block in the station shows that the strongest Atlantic storm this year was Hurricane Erika. Packing winds of more than 100mph, it missed Bermuda by just a few hondred miles and swirled harmlessly out at sea.

Not all hurricanes are so obliging, however. When Hurricane Andrew hit Miami five years ago, it caused more than $15bn of damage and shook the confidence of insurance companies in their own ability to predict losses accurately.

In 1995, an onusually active season of hurricanes killed some 121 people and caused $7.7bn of damage in the US.

"Insurers lost e lot more money than they thought they would lose," says Mr Murnane. "A lot of them realised that they didn't know whet they were doing and decided to invest in hurricane research."

Eleven insurance companies, several of them based in Bermuda, are spending some $1.1m a year to understand how hurricanes form and the probability of them striking land.

To date, their own efforts et predicting losses have focused on the effects of the storms and their historical occurrence.

"The problem with that is you only have a record that is 100 years long. So yon can't tell much about the frequency of really severe hurricanes and the effects that they have," says Mr Murnane.

The biological station has enlisted the help of William Gray, a professor at the University of Colorado. His is a more sophisticated science, using constantly updated information on rainfall in west Africa, sea surface temperatures across the Caribbean, and the behaviour of winds in the upper etmosphere.

So far, the project has raised more questions than answers. An unusual warming of the Pacific Ocean waters off South America called "El Nino" has this year played havoc with Professor Gray's hurricane forecasts and he has been forced to revise them.

Luckily for the insurance companies that follow his predictions, this has been good news.

There have been three Atlantic hurricanes so far this year – fewer than normal – and the season is almost over.

Christopher Adams

Dispute rumbles on

A protracted row over an insolvent Bermuda-based insurance company could have serious implications for the way insurers are allowed to restructure themselves in the face of massive environmental claims.

The dispute, which has rumbled through the law courts for two years, embarrassing the Bermudian authorities, centres on a mutual liability insurer called Emlico set up by General Electric of the US.

Emlico was transferred from *Massachusetts* to Bermuda in July 1995. Four months later, after an actuarial review, reserves for asbestos and environmental liabilities were raised, pushing it from a $250m surplus to a $500m loss. Its directors decided to wind the company up.

But the reinsurers who underwrote a portion of the group's book of business said Emlico acted fraudulently, concealing knowledge of its losses before moving to Bermuda. Emlico had purchased cover from about 400 reinsurers, including US-based General Re, Germany's Hannover Re, Lloyd's of London underwriters, Kemper Re, National Indemnity and Commercial Union.

They argue that under Bermudian law, a liquidator can recover more money from reinsurers more quickly than in other countries. The liquidators, Coopers & Lybrand, say this is not correct and deny the reinsurers' charges.

Kymn Astwood, Registrar of Companies in Bermuda, says complaints by Kemper Re challenging the relocation of Emlico have been dismissed by courts in Bermuda and Massachusetts. He maintains that the island's loose regulatory environment is effective.

The court in Massachusetts ruled that the reinsurers were not policyholders of Emlico and fell outside its protection, he says.

It said that Bermudian laws on liquidation were "comprehensive" and similar to those in *Massachusetts*.

"A lot of these accusations in my view are questionable," says Mr Astwood. "It is up to the courts to decide. Bermuda is well qualified to run off insurance companies."

But with the reinsurance companies taking their fight to higher courts, the liquidators have been negotiating a settlement.

Several reinsurers have agreed to meet a portion of their liabilities. Among those are General Re and Hannover Re. It is thought National Indemnity may join them. Lloyd's, the rest of the London reinsurance market, and Kemper Re have yet to settle.

Grant Gibbons, Bermuda's finance minister, refuses to be drawn into the argument. "No matter what system you have there will always be occasions when things did not go as well as they might have. In this case, the courts will decide."

Christopher Adams

PROFILE Bermuda Commodities Exchange

An ambitious experiment

Can a small island with little direct experience in the capital markets hope to succeed where Chicago has largely failed?

That is the question that hangs over Bermuda's new commodities exchange, whose computerised trading system will be turned on officially on November 12. The exchange's first contract: a catastrophe insurance product, aimed at the same customers that the Chicago Board of Trade has tried, with little success, to attract.

This is an important experiment for Bermuda. As the world's insurance and capital markets become more intertwined, an insurance centre lacking skills in securities and derivatives trading may see its influence wane.

The Bermuda Commodities Exchange will begin by trading options based on losses from hurricanes, tornadoes and other climatic events in five different US regions and nationally. The contracts cover losses either from a single event, a second event or in aggregate.

Chicago's attempt to build a market for similar insurance options has hardly been a roaring success. In the two years since it began trading catastrophe options, the CBOT's products have resulted in only about $50m of risk transfer, a drop in the ocean given the scale of the potential losses from such natural disasters.

Also, Bermuda's exchange is launching itself into a global insurance market awash with capital – hardly the best time to try to develop new products such as these.

Thomas Heise, president of the new exchange, claims there is still plenty of room for the fledgling market to establish itself. Though capital has flooded back into the catastrophe business, there is a shortage of capacity to back certain risks.

Insurers – and reinsurers – are still wary of being overexposed to the losses that a large hurricane smashing into New York could cause, says Mr Heise. He estimates that $500m of catastrophe exposure could be waiting to change hands.

Bermuda also hopes to learn e lesson from the CBOT's experience. Its contracts will be fully collateralised, rather than requiring only a trading margin, a move that reflects concerns about whether traders will be around to pay out their losses when disaster strikes.

And its options are based on a far more detailed index of actual insurance losses, potentially making them more effective as a hedge.

While Bermuda is rife with the insurers and reinsurers who might seem natural customers for such an exchange, however, it lacks the base of active traders and risk-takers who oil the wheels of Chicago's markets. Does this mean its exchange will be stillborn?

According to Mr Heise, it is better to have specialist insurance companies such as Mid Ocean and Partner Re as exchange members than pure trading firms. "It's not as big a leap for a reinsurer to become a trader as it is for a trader to become a reinsurer."

Also, Mr Heise says, the success of this market will not be in the volume of trading it generates, but in the *amount* of risk transfer that it supports. After tackling the climatic problems of the US's Gulf and east coasts, the next step will be to develop products for catastrophes such as a Japanese hurricane, he says.

For their part, some reinsurers seem cautiously interested but are hardly falling over each other to trade on this new market. Michael Butt, chief executive of Mid Ocean, agrees that there is a need for catastrophe contracts like these, but says his company has joined the market mainly to "establish a watching brief". David Brown, chairman of Center Re, which is not a member, says the market may simply be too small to generate the trading volume and volatility that a public market needs.

Richard Waters

Guide for the visitor

General information

Time: GMT -4 hrs (GMT -3 hrs from April to October).
Climate: Sub-tropical with temperatures usually ranging betweeo 16°C during winter (November-March) and 28°C during summer (April-October). No marked rainy season. Occasional burricane-force winds in September.
Clothing: There is no occasion on the island when shorts cannot be worn. For the office, tailored shorts of one colour should be worn with long socks to the knees with at least an inch to turn over.

Entry requirements

Passport: Required by all except US and Canadian nationals holding proof of identification. Return/onward ticket required by all travellers.
Visa: Required by nationals of east European countries, Cuba, Argentina, Iran, Iraq, Libya and certain others (unless permanent residents of the US). Stays of more than three weeks are not automatically allowed without a permit – applications should be made st the airport.

Currency

There is no restriction on import of foreign exchange bot export must not exceed that declared on entry. There is no restriction on the import of local currency export is limited to BD250.

Health precautions

Mandatory: Yellow fever vaccination certificate is required if travelling from an infected area.
Advisable: Hepatitis, typhoid, tetanus and polio vaccinations.

Getting there

Air access
Tax: Adult international departures BD20 (January 1996), excluding transit passengers.
International airport: Kindley Field (BDA), 19km from city of Hamilton. Bar, restaurant, bank, shops, botel reservations.
Surface access
Main ports: Hamilton, St George's. Weekly cruises link Bermuda with New York in summer months.

Hotels

Generally expensive and advisable to book well in advance. Six per cent government tax payable on check-out on room rates. Tips about 10 per cent are expected except where 10-15 per cent service charge added to bill. The Visitors' Service Bureau at Bermuda Civil Air Terminal (which is open 0930-0330) will provide information on accommodation to visitors who have not pre-booked.
Credit cards: Accepted at most hotels, restaurants and shops.

Getting around

Car hire: In order to ease traffic congestion, self-drive cars are not svailable and local licences are not issued for short stays. Numerous mopeds available for hire.
City transport
Taxis:
Metered taxis are also available by the hour or by the day day – legal rates are applicable for those with blue pennants driven by qualified guides and these are available on a time basis for sightseeing. A 10-15 per cent tip is usual.
National transport
Road:
Bermuda bas about 250km of well-surfaced roads. Traffic drives on the left and the speed limit is 35kph. Two-wheeled vehicles are favoured.
Water:
A number of harbour points are served by ferries.

Public holidays

Fixed dates:
1 January (New Year's Day), 24 May (Bermuda Day), 11 November (Remembrance Day), 25-26 December.
Variable dates:
Good Friday, Queen's Birthday (June), Cup Match and Somers' Day (July/August), Labour Day (first Monday in September).

Working hours

Government and business:
(Mon-Fri) 0900-1700.
Banking:
(Mon-Fri) 0930-1500 also 1630-1730 Fri.
Shops:
(Mon-Sat) 0900-1700.


Dressing down: there is no occasion on the island when shorts cannot be worn

Communications

Telephone:
Dialling code for Bermuda: IDD access code + 1-441 followed by subscriber's (seven-digit) number. There are no area codes. Direct dialling to the UK, the US, West Indies, Europe and most other countries worldwide. Service is digital electronic and there are public phone kiosks throughout the island.
Postal service: Advisable to use airmail, which is fast.

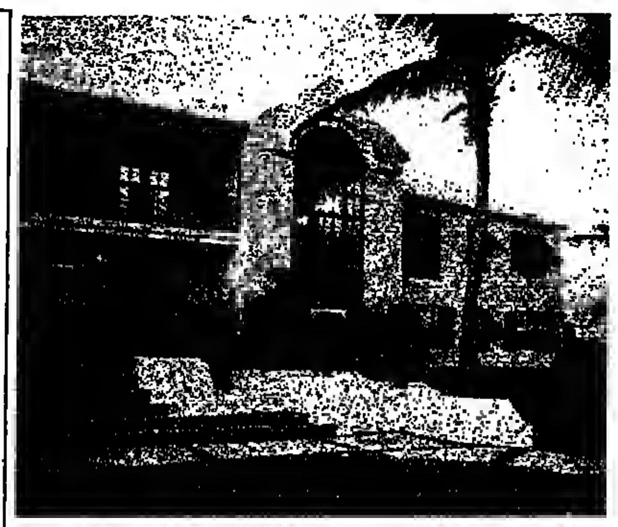
Banking

Banking centre: Hamilton.
Central bank: Bermuda Monetary Authority.
Commercial banks (head offices): Bank of Bermuda, Bank of NT Butterfield Son, Bermuda Commercial Bank.
Joint stock/venture banks: Bermuda Commercial Bank, Bermuda Shields Trustee Co, Chartered Trust Co, European American Finance (Bermuda), Montreal Trust (Bermuda), Pierson, Heldring Pierson (Bermuda), Schroders (Bermuda), Schroder International Trust Co.

Useful addresses

Bermuda Chamber of Commerce:
PO Box HM-655, Front Street, Hamilton HMCX (tel: 295-4201)
Bermuda Monetary Authority (central bank):
PO Box HM 2447, 43 Church Street, Hamilton HM12 (tel: 295-5278).
Ministry of Finance:
Government Administration Bldg, 30 Parliament St, Hamilton HM 12 (tel: 295-5151).

Source: World of Information April 1997


One of the houses sold by the Property Group. Prospective US buyers have flooded back to Bermuda after a two-year absence

PROPERTY • by Christopher Adams

Tycoons descend on the island

Buyers with bulging pockets mean brisk business for the sector's top end

At the end of a narrow, twisting road running through Bermuda's eastern parish of Tuckers Town is an imposing gate.

Behind it lies several hundred million dollars of lavish real estate: the extravagant houses of politicians, pop stars and business tycoons who havs chosen the world's second most remote island as their summer home.

Barbara Trimmingham, managing partner of tha Bermnda-hased Property Group, says that turnover this summer has been brisk, with mock-Georgian and Devonshire style cottages changing hands for up to $12.5m.

Ms Trimmingham says that prospective US huyers have flooded back to Bermnda after a two-year absence, their pockets now bulging with the proceeds of e sustained bull run in the international capital markets.

The fact that US citizens are taxed on their worldwide income means that, et e personal level at least, there have traditionally been very few financiel advantages for Americans in choosing Bermuda as their base.

This year, however, Wall Street traders and brokers have been moving in to Bermuda properties next to longer established residents such as Silvio Berlusconi, the former Italian prime minister, pop star David Bowie and Ross Perot, the US billionaire.

Demand has been further boosted by an end to political uncertainty on tbe island's status following a refarendnm on independence which took place two years ago. The referendum rejected breaking tha colonial links with Britain.

The effects of this mini-boom at the top end of the property market hava spilled over into the rest of Bermuda's housing market. [illegible] cnlt for local residents. Native Bermndians, many of whom do not have lucrative jobs, are forced to wrestle with average house prices of $400,000.

"The vast majority of property in Bermuda is like Manhattan with no Brooklyn," says Ms Trimmingham. "There ara no cheap suburbs."

As a result, young couples can spend several years of early marriage living with their parents while hnsbands and wives often have to hold down three to four jobs between them.

In an effort to ensure that most of the island's property is reserved for citizens of Bermuda rather tban for expatriates or visitors, the government has imposed heavy fees on sales of property to foreign housebuyers and there are limits on ownership.

For example, foreigners can only purchase houses that have an annual rental valne of at least $43,800. At any one time, there are about 40 properties for sale on the island. These range in price from $1.5m to $20m.

In addition, a tax levied on sales to overseas buyers has been raised sharply in recent years – to 22 per cent for a house and 15 per cent for a condominium.

Nevertheless, this does not appear to be deterring buyers and demand for property is so great that some simply want land on which to build.

The biggest houses are to be found in Tuckers Town, bnt other exclusive neighbourhoods that are much in demand inclnde Point Shares & Fairylands, Harbour Road and the Sonth Shore.

The redevelopment of a former naval air station, adjacent to the airport al the east end of the island, may help to relieve some of the pressure on space.

As well as providing scope to develop commercial operations, this site will be reserved for residential communities.

Marriott International, the US hotels and services group, is also planning to proceed with a plan for two housing devalopments at [illegible]